UNITED STATES-ISRAEL FREE TRADE AREA AGREEMENT

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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UNITED STATES-ISRAEL FREE TRADE AREA AGREEMENT

WEDNESDAY, MARCH 6, 1985

House of Representatives,
Committee on Ways and Means,
Washington, DC.

The committee met, pursuant to notice, at 10:20 a.m., in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press release announcing the hearing follows:]

[For immediate release Friday, Feb. 22, 1985]

The Honorable Dan Rostenkowski (D., Ill.), Chairman, Committee on Ways and Means, U.S. House of Representatives, Announces a Hearing on the United States-Israel Free Trade Area Agreement, March 6, 1985

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced a hearing on the proposed agreement providing for a free trade area between the United States and Israel and its implementation, on Wednesday, March 6, 1985. The hearing will be held in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

On November 29, 1983, President Reagan and Israeli Prime Minister Shamir agreed to proceed with bilateral negotiations on a U.S.-Israel free trade area, following up an Israeli Government original proposal in 1981. Discussions have been taking place between the two governments since January 1984 on the specific elements, with extensive negotiations over the past few months between the U.S. Trade Representative (USTR) and Israeli negotiators to reach a final draft agreement. A draft agreement will be made publicly available by USTR on March 1, 1985. Title IV of the Trade and Tariff Act of 1984 authorized the President to negotiate and enter into such an agreement, subject to Congressional approval of implementing legislation under the expedited procedures of section 151 of the Trade Act of 1974. Conclusion of a final agreement is expected in early April.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-3627] by the close of business, Friday, March 1, 1985. The oral request should be followed by a formal written request addressed to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

In view of the limited time available to hear witnesses, the Committee will not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance will be encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Committee to hear as many points of view as possible. Time for oral presentations will be strictly limited with the understanding that a more detailed statement may be included in the printed record of the hearing. This process will afford more time for Members to question witnesses. In addition, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available for questioning witnesses, witnesses appearing before the Committee are required to submit 200 copies of their prepared statements to the full Committee office, 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances.

Requests to be heard must contain the following information:

1. The name, full address, and capacity in which the witness will appear, as well as a telephone number where the witness or a designated representative may be reached;
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of the comments and recommendations in the full statement.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the printed record of the hearing.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies by the close of business Friday, March 15, 1985, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 100 additional copies for this purpose if provided to the Committee office before the hearing begins.

Chairman ROSTENKOWSKI. The committee will resume its sitting.

The purpose of this hearing is to receive testimony from the administration and views of the private sector on the proposed United States-Israel Free Trade Area Agreement.

This agreement would eliminate tariffs within 10 years on all products traded between the two countries. The agreement would also limit the use of other nontariff trade restrictions and commit Israel to eliminate its export subsidy practices.

Since the agreement must be considered by Congress under an expedited procedure which permits no amendments in the implementing bill once it is introduced, this committee is conducting hearings and an unofficial markup of the legislation in advance of formal submission of the agreement and bill by the President.

Since our time is limited today, I am requesting that each witness summarize his or her testimony briefly on the understanding that all statements will be printed in full in the hearing record, and I ask unanimous consent at this time to that end.

Our first witness today on behalf of the U.S. Trade Representative is Doral Cooper, Assistant U.S. Trade Representative.

Welcome to the committee, Ms. Cooper. We are ready to accept your testimony. You may proceed.

STATEMENT OF DORAL S. COOPER, ASSISTANT U.S. TRADE REPRESENTATIVE FOR BILATERAL AFFAIRS, ACCOMPANIED BY CLAUD GINGRICH, GENERAL COUNSEL

Ms. COOPER. Thank you, Mr. Chairman.

Let me begin by apologizing for Ambassador Brock who is unfortunately at another hearing. He will try to come by.

I would like to introduce to my left Claud Gingrich, USTR General Counsel who is our legal adviser to the negotiating team for the Free Trade Area.

If I may, I will submit my comments formally for the record and summarize briefly.

Chairman ROSTENKOWSKI. All right.

Ms. COOPER. The agreement, as you noted, will cover all trade barrier, both nontariff barriers and tariff barriers, between the United States and Israel. These barriers will be eliminated by January 1, 1995.

From the outset of our negotiations, we have endeavored to follow the requirements set out by the GATT to cover substantially all trade and to ensure that the concessions were put in place in a reasonable amount of time.

In addition to these requirements, we went beyond our GATT obligations in ensuring that our agreement covered trade and services, intellectual property rights, and performance requirements.

If I may, sir, I would like to summarize first the tariff concessions covered by the agreement.

We used as our data base 1982 trade figures because when we began our negotiations that was the most current data available to both sides. Let me explain by this chart what we did. The United States currently accepts from Israel 55 percent of their trade on a duty-free basis, so the United States had to liberalize 45 percent of the trade from Israel. On the other hand, only 18 percent of our exports to Israel currently enters duty free. So you can see that Israel had a much greater percentage of their trade to liberalize.

The tariff concessions will be phased in in four different stages. There will be a first tranche that will have the duties going to zero immediately.

Mr. SCHULZE. Mr. Chairman, could we move the chair so that we can see it?

Ms. COOPER. Is that better?

The pink is Israel imports and the green is U.S. imports. You can see that a greater percentage of U.S. imports will be going to zero in the first tranche. However, in trade terms, a much larger percentage of Israel imports will be going to zero in the first tranche. You can see how the tranches move from the first to the second to the third.

I should point out that the fourth tranche is the so-called freeze tranche. These are the most sensitive items identified by both sides which will be frozen for a 5-year period, but they will be going to zero at the end of 10 years.

The agreement also covered nontariff barriers. We wanted to ensure that the concessions both sides put in place on the tariff side were not undermined by any nontariff barriers that either side could implement. In this regard, perhaps the most substantial agreement in our mind was the agreement by the Government of Israel to phase out its export subsidies. The Israel Government will sign the Subsidies Code in Geneva and all export subsidies will be phased out as part of this agreement.

The nontariff side of the agreement also covered balance-of-payments restraints, licensing, and infant industry provisions that the Israel Government could implement.

I should point out that all unfair trade statutes will remain in place on both sides; that is, section 201 will remain in place, as will section 301, and our dumping and countervailing duty laws. The agreement also provides for the resolution of disputes. There is a joint committee which will govern the agreement which will be chaired by the Israeli Trade Minister and the USTR. If there are any disputes, the agreement also provides for a dispute settlement procedure.

We believe, sir, that this agreement will provide mutual benefits to the Israeli economy and to the U.S. economy. We have enjoyed working with this committee as well as the Senate Finance Committee in designing this agreement, and we look forward to your questions today.

Thank you, sir.

[The prepared statement follows:]

STATEMENT OF DORAL S. COOPER, ASSISTANT U.S. TRADE REPRESENTATIVE FOR BILATERAL AFFAIRS

Mr. Chairman, thank you for the opportunity to discuss the results of our negotiations with Israel on the establishment of a free trade area between our two countries. A free trade area is a bilateral arrangement between two countries in which each country removes trade barriers with respect to the other. This Agreement, if approved by the Congress, will be the first of its kind that the United States has undertaken. It will eliminate non-tariff barriers and duties on all products traded between the United States and Israel by January 1, 1995.

President Reagan and former Israeli Prime Minister Shamir agreed on November 29, 1983 to begin discussions on the establishment of a two-way free trade area. Negotiations with Israel began formally in January, 1984 and were concluded this week. The Trade and Tariff Act of 1984 provided the President with the authority to conclude a trade agreement with Israel providing for the reduction or elimination of tariffs and nontariff barriers, and to submit such an agreement and its implementing legislation for "fast-track" Congressional review following the procedures of Sections 102 and 151 of the Trade Act of 1974.

From the outset of our negotiations we have endeavored to meet all the requirements set by the General Agreement on Tariffs and Trade (GATT) on the establishment of a free trade area. The GATT permits free trade areas as a deviation from Article I (Most Favored Nation Treatment) under Article XXIV, as long as the agreement meets certain criteria. Free trade areas approved under the GATT must be designed "to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories." Free trade areas must cover "substantially all the trade" between the parties and must be staged into effect within a "reasonable" length of time. We believe that the Agreement we have negotiated is fully consistent with these requirements. In addition, the Agreement goes beyond the GATT requirements to cover areas such as trade in services, intellectual property rights and trade-related performance requirements which have yet to be incorporated into the GATT. We believe that greater international discipline in these new areas of trade will be beneficial and that the U.S. should provide a general model for future activity by including liberalization of trade distorting practices in these areas in our bilateral agreement.

DESCRIPTION OF THE AGREEMENT

The Agreement comprises a Preamble and twenty-three separate Articles, as well as four Annexes, which are integral parts of the Agreement. Annexes 1 and 2 provide the schedule of tariff reductions for both nations. Many of the Articles and one of the Annexes (Annex 3 on Rules of Origin) address nontariff barriers to trade. Annex 4 is Israel's commitment on the reduction and elimination of export subsidies.

TRADE COVERED BY THE AGREEMENT

All commercial trade between the United States and Israel will be covered by the Agreement. In 1982, the year used as a base for our negotiations, the United States exported $1.5 billion in products to Israel and imported $1.2 billion in goods from Israel. Many products traded between the United States and Israel already receive duty free treatment as a result of concessions they have given to all GATT members. In 1982, 55 percent of the products we imported from Israel were duty free on this basis and 18 percent of the products we exported to Israel benefitted from the same treatment.

The negotiations thus centered on the remaining portion of the trade which is legally dutiable. For the United States, this includes items which are eligible for the U.S. Generalized System of Preferences (GSP) and which receive duty free treatment under this program on a temporary basis. For Israel, all products now entering Israel on a temporary, unbound duty free basis were included. Thus, for the United States, the value of trade to be liberalized under the Agreement (based upon 1982 trade) is $515 million. For Israel, the trade to be liberalized is valued at $1,278 million.

Duties will be eliminated by both the United States and Israel in four stages:

(1) Elimination of some duties immediately upon entry into force of the Agreement;

(2) Elimination of duties on some products in three different tariff cuts by January 1, 1989;

(3) Elimination of duties in eight different cuts over ten years (by January 1, 1995); and

(4) No duty reduction for five years, with reexamination of the timetable for duty elimination following receipt of additional advice from the United States International Trade Commission (USITC).

As we have indicated to you throughout the negotiations, we have addressed the sensitivity of individual products through the staging of the Agreement. As a general rule, and there are exceptions to these rules, those products for which we received no advice indicating particular sensitivity in the context of our bilateral trade with Israel, including many items with duties which were less than ten percent and many products which are eligible for the U.S. Generalized System of Preferences, are generally included in the immediate category. Those products for which there may be general sensitivity in the U.S., but which are not likely to be produced competitively in the short term in the Israeli economy are, in most cases in the second stage, with duties to be eliminated by January 1, 1989. Products which are more sensitive in the context of our bilateral trade, but which were not identified by the U.S. International Trade Commission (USITC), such as certain textile and apparel products, certain horticultural products (artichokes, avocados) and certain bromine compounds are in the third stage, with duties to be eliminated in 10 years. Finally, those products which were specifically identified by the USITC are included in the fourth stage, the "freeze" category. These products include: processed tomato products, citrus fruit juices, dehydrated onion and garlic, cut roses, certain olives, certain bromine compounds and certain gold jewelry items. The exceptions to these general rules were the result of negotiations in which the United States obtained more rapid staging for products of key export interest to us in exchange for moving specific products of interest to Israel to earlier stages.

SUMMARY OF TRADE IN EACH STAGE OF DUTY REDUCTIONS

The following table outlines the value and percentage of trade to be liberalized in each stage of duty reductions for both the United States and Israel.

Stage	U.S. imports from Israel			Israeli imports from the United States	
	Value (thousands)	Percent	Percent GSP	Value (thousands)	Percent
1. Immediate	$414.7	80.4	84.0	$670.8	52.5
2. 1989	27.8	5.4	62.1	402.8	31.5
3. 1995	4.7	.9	8.2	39.5	3.0
4. Freeze	67.9	13.6	64.8	164.4	12.8

NON-TARIFF-BARRIERS

The Agreement also contains provisions which require the elimination of nontariff barriers to trade between Israel and the United States. These provisions include commitments for Israel to eliminate all export subsidies and sign the GATT Subsidies Code, a commitment by Israel to liberalize its licensing practices, which to date have been applied in a highly arbitrary manner, agreement disciplining each party's ability to take balance of measures which could affect the balance of concessions under the Agreement, a commitment by both parties to expand access to each other's government procurement markets beyond the levels negotiated under the GATT Government Procurement Code and provisions on rules of origin which have the same test of content required dunder the rules of origin adopted for the Caribbean Basin Initiative.

Under the Agreement, the United States retains all rights provided under U.S. domestic law in the area of unfair trade practices. U.S. antidumping and countervailing duty laws will remain unaffected by the Agreement. Israel will gain access to the injury test on countervailing duty cases upon signature of the Agreement and the GATT Subsidies Code, as would any other signatory to the Subsidies Code. Section 201 and Section 301 of the Trade Act of 1974 also will not be affected by this Agreement.

The Agreement contains provisions for resolution of any disputes which may arise in the course of the Agreement. These provisions provide for consultation between the parties in a Joint Committee, chaired by the U.S. Trade Representative and the Israeli Minister of Industry and Trade, which will be established to administer the Agreement. Procedures are outlined in the Agreement for rapid settlement of disputes which cannot be resolved through initial consultations. If at any time either party believes that the dispute process has not resulted in a satisfactory solution to the dispute, they retain their right to retaliate by withdrawing concessions, or to terminate the Agreement.

We believe that this Agreement will offer benefits to both the United States and Israel over the coming years. Under the Agreement, the United States will be able to compete on an equal footing with the European Community and Israeli producers in the Israeli market. This will be particularly important for us in the area of industrial equipment, high technology products and consumer goods. For its part, Israel will gain secure, long term access to the United States market and its industries will be able to expand their trade with the United States as the Agreement is staged into effect.

We look forward to continuing our consultations on the contents of the Agreement with this Committee, as well as with other Members of Congress and the private sector in the coming weeks. We also look forward to the official submission of the Agreement to the Congress for its formal review.

Chairman ROSTENKOWSKI. Thank you, Ms. Cooper.

Mr. Gibbons.

Mr. GIBBONS. Ms. Cooper, I appreciate your statement.

I really have no questions of any great substance for you.

Are you satisfied and is legal counsel satisfied that our safeguards, countervailing duty, and antidumping provisions are maintained inviolate and intact by this agreement?

Mr. GINGRICH. Mr. Gibbons, we feel certain, as Ms. Cooper said, that all the trade practice laws remain intact. Every right everyone had before this agreement will remain intact after this agreement.

Mr. GIBBONS. Thank you.

My second question is just an observation. I do not want anyone in this audience—and I want to officially put it in the record now that if any Arab nations would like such an agreement, that I would be happy to introduce the legislation for them. I would hope that they would like such an agreement, and I have talked it over with the Israelis and the Israelis would welcome a United States-Arab agreement such as this. So I do not want anyone to think that this is designed in any way to increase the division between the Arab States and Israel, or between the United States and the Arab States. This is not the purpose of this legislation.

Thank you.

Chairman ROSTENKOWSKI. Ms. Cooper, on February 20, Senator Packwood and I wrote a letter to Ambassador Brock outlining the schedule that our respective committees will follow in reviewing the proposed Israeli agreement. That schedule provides for a period of consultation and informal congressional action prior to the signing of a final agreement and submission of the administration's bill.

Can you give me assurances on behalf of the USTR that no final agreement will be signed by the United States until after this period for congressional review has been concluded?

Ms. COOPER. Yes, I can.

Chairman ROSTENKOWSKI. Thank you.

Are there any questions?

Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Ms. Cooper, let me ask, if I might, if I am correct in assuming under this agreement, that the Customs Service rules of origin, especially the new textile rules, will be applied and that the products will have to have Israeli origin under these rules before they can be reduced to zero under this agreement?

Ms. COOPER. Yes, sir, they will.

Mr. CAMPBELL. Carrying that a little further, I would expect under these rules of origin that if a product was considered to have an origin in a country other than Israel, it would have to come into the United States under that country's quota even if it had 35-percent Israeli content.

Ms. COOPER. That is correct, sir. The textile rules of origin will apply to textiles.

Mr. CAMPBELL. So that is the basis we have reached an understanding on?

Ms. COOPER. Correct.

Mr. CAMPBELL. I have been asked by Mr. Jenkins in his absence to ask a couple of questions.

Israel is the fourth largest supplier and the third fastest growing supplier of bathing suits behind Hong Kong and Taiwan, and imports from Hong Kong and Taiwan have proven to be disruptive to United States markets and are now under quota.

Could you tell me how knit bathing suits are treated under this?

Mr. GIBBONS. I hope well. [Laughter.]

Mr. CAMPBELL. I qualified it by saying this was Mr. Jenkins' question.

Mr. GIBBONS. You do not object to that, I hope.

Ms. COOPER. Duties on bathing suits from Israel will be phased to zero immediately. I should point out that the Israeli bathing suits are of a higher quality than the ones coming from the Far East. They are much more expensive. I also should point out that our MFA rights remain in place; so if there is market disruption, both Israel and the United States can turn to the MFA.

Mr. CAMPBELL. You do not anticipate they would be penetrating the marketplace in the same area that the others have been and proving to be disruptive?

Ms. COOPER. No, they will not.

Mr. CAMPBELL. Let me ask this.

Wool blend fabrics, another of Mr. Jenkins' questions. Just one type of polyester-wool blend, a fabric which has been heavily impacted by imports, Israel shipped over 27,000 square yards in 1984 after not shipping it at all in 1983.

Could you tell me how you have treated the wool blend fabrics under this?

Ms. COOPER. Sir, if we can get the specifics of the product, we will inform you of how it is treated under the agreement.

Mr. CAMPBELL. All right. You will supply that.

Ms. COOPER. Thank you.

[No further information was received.]

Chairman ROSTENKOWSKI. Any further questions?

Mr. PEASE. Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Ms. Cooper, we are happy to have you here today, and I would like to say something for the record as much as ask a question.

When this proposal for a free trade agreement with Israel first came up, I expected some concern mainly from the viewpoint of the precedent setting aspect of this agreement. This is really the first free trade agreement that we have negotiated. In light of the special relationship that the United States has had and does have with the state of Israel, in light of the considerable support which Israel enjoys in the U.S. Congress, I was fearful that we would not be as careful as we needed to be in looking at the precedent setting aspects of this agreement.

I was concerned, as you know, before about the specific products which would be impacted by this agreement to the detriment of American manufacturers. I was concerned about Israel's ability to use measures to protect its market as an underdeveloped country. I was concerned about export subsidies. I was concerned about the requirement for rules of origin.

I must say that as I look through this agreement I believe that you have addressed those concerns very well, that you have negotiated faithfully and well with Israel and you have met most of the objections or all of the objections that I thought might have been raised to this agreement.

But I guess I would just like to emphasize for the record that at least some members of this committee do not view this agreement as carte blanche for a replication of this sort of agreement with many other nations. Certainly the concerns that I originally raised in connection with this agreement would apply equally well to them.

I would hope that if your office is approached by other nations who might see this agreement as a precedent for them to follow, that you would make those countries very much aware that this is not an easy process, that we do expect on this committee the USTR to fully protect the rights of American citizens and American manufacturers who might be detrimentally affected by these agreements.

Now, I suspect if I ask you have you stopped beating your husband, if you have one, or would you promise not to do so that you would say you certainly would. But this question does really fall under that category.

How do you view this agreement in terms of this being a precedent for other nations which might seek similar arrangements with the United States?

Ms. Cooper. Let me say, first, Congressman Pease, that we sincerely appreciate your comments. Thank you.

The precedent setting nature of this agreement is unknown at this time; but if there is to be another agreement of this sort with another country, obviously we will consult with you as much as we have on this one. The reason we went to great lengths to insure that this was a comprehensive, well-drafted agreement that covered all GATT requirements as well as requirements in other areas such as intellectual property rights, services, and performance requirements was precisely because of the precedent setting nature of the agreement.

We think this is a fine framework for future agreements, if there are to be future agreements. We assure you, however, that, pursuant to any future agreements, we will consult with you to the extent we have on this one—quite substantially.

Mr. Pease. I appreciate that assurance. Let me back up.

One of the reasons that the Congress was receptive to this agreement with Israel is not only the special relationship that I mentioned before but also the fact that the Israeli economy is a relatively small economy vis-a-vis the U.S. economy. Even if you were not entirely successful in safeguarding the interests of American producers, the potential for damage to the American economy is relatively small, as I say, even if things did not work out the way that we all hoped that they would.

But if we look at the other nations, Canada, for example, or the Far Eastern nations, they have much larger economies than Israel and, therefore, the potential for a much, much more severe impact on our own producers in this country. So I would think it would be even more important if you are approached by other nations about negotiating free trade agreements that you be cognizant of the safeguards that you have built into this agreement and that you come back to Congress to find out the full range of concerns that we have before any such agreement gets very far down the road.

Thank you very much.

Thank you, Mr. Chairman.

Chairman Rostenkowski. Mr. Schulze.

Mr. Schulze. Thank you, Mr. Chairman.

I agree with Mr. Pease's statement. I think the staff has done an excellent job. As you know, when this process began I had some questions. Those questions and problems have been addressed, and I think in a very satisfactory way, and I think the USTR's shop is to be commended for the job they have done.

Will you explain to the committee what the lifetime of the agreement is.

Mr. Gingrich. Congressman Schulze, the agreement with them will remain in affect until terminated by either party with a 1-year termination notice.

Mr. Schulze. So either party can give 1 year's notice, and what would happen with the notice? Would there be negotiations or would there just be notice, and on 1 year from that date it would be terminated.

Mr. Gingrich. There was no specific discussion as to any procedure that would be followed. Obviously, if we got to the point where we were going to terminate the agreement with Israel, I would suspect that it would have been preceded by intensive consultations. We do not view that as a very likely event.

Whether or not we would give notice and then continue to consult, I cannot say. I would suspect we would.

Mr. Schulze. I agree, but I am following the line Mr. Pease started and I think the importance of this agreement is its precedent setting nature, the establishment of this precedent for other agreements.

That is why I asked the question and perhaps some thought should be given to that as we proceed.

Do you at this time foresee other negotiations? In the legislation we passed we did give permission, if my memory serves me correctly, to what? Canada?

Mr. Gingrich. Under the Trade Tariff Act of 1984, Congressman, this is the only agreement that the President can negotiate without coming to the Ways and Means Committee, and the Finance Committee and asking for permission to negotiate on the fast-track process. So, if there are to be any other negotiations, they will be preceded by an approach from the administration to the committees, a discussion of the requests to negotiate that we have had, and then a vote by the committees.

Mr. Schulze. Are there any discussions under way in-house of proceeding with another agreement?

Mr. Gingrich. No. Obviously, we have been approached by a number of countries, including Canada, some of the Asian and Middle Eastern countries who have expressed an interest or curiosity about this agreement. At least one of the Communist bloc nations has also expressed an interest in the process.

So there are a variety of countries that have actually come to us for information or for talks, but there are no negotiations of any sort going on with any other country at this point.

Mr. Schulze. How much GATT involvement was there in the negotiation of that agreement?

Mr. Gingrich. GATT involvement in terms of consultation?

Mr. Schulze. Consultation, discussion, active involvement, just any GATT involvement at all?

Mr. Gingrich. None. We took the position that we were going to do this agreement within the framework of article 24 of the GATT, that we fully met all the GATT requirements. Frankly, we saw no need other than to inform the GATT of what we were doing.

Mr. Schulze. So that we can assume from that that this not only meets all GATT requirements but is a step forward in trade, in international trade which is taken without the GATT impetus and entirely outside of the GATT?

Mr. Gingrich. Precisely. We believe it is the purest article 24(a) free trade area agreement ever done.

Mr. Schulze. In your opinion should we continue to work for more multilateral agreements outside of GATT?

Mr. Gingrich. That is a question I want to be very careful in answering. Ambassador Brock on a number of occasions has expressed frustration with the current GATT process, and if that process is unable to move forward in a fashion that he finds satisfactory he is quite prepared to entertain other possibilities with respect to how we ought to move the international trading process forward.

Mr. **Schulze**. My suggestion would be that we do proceed along that course.

Are we building a fire under GATT perhaps? But if they are not going to move, we should, and we should move aggressively, and I would hope that USTR would proceed down that path.

Thank you, Mr. Chairman.

Chairman **Rostenkowski**. Any further questions?

Mr. Frenzel.

Mr. **Frenzel**. Mr. Chairman, I want to thank the witnesses for their testimony and echo the statements of Congressman Pease about the faithful discharge of their duties and their warranties to this Committee in the negotiation.

Also I want to thank Nancy Adams who is here for her help when the subcommittee was in Israel trying to understand a little bit more about the negotiations.

You just called this the purest trade agreement ever executed. One of the reasons the United States wanted to be a party to the agreement was that Israel and the EC had already executed a similar agreement. So America's interest was increased by the need to gain for its producers competitive conditions in the Israeli market.

Can you compare the EC agreement with Israel to our agreement with Israel?

Mr. **Gingrich**. Congressman Frenzel, the EC agreement with Israel is not as comprehensive as this. There are certain agricultural products, for instance, that are not covered by the EC agreement in the comprehensive fashion that the United States-Israel agreement covers them. We think we have dealt with more non-tariff barriers, standards, licensing, balance of payment issue, matters like that than the EC-Israel agreement. It is on that basis we think it is a much more purely article 24(a) agreement than any other free trade agreement we have seen.

Mr. **Frenzel**. Do you believe that U.S. producers and exporters have access at least equal to that of EC, of their EC counterparts in the Israeli market?

Ms. Cooper. Yes, sir. One of our primary negotiating goals was to ensure just that, that our products would not be disadvantaged vis-a-vis the EC. Obviously, on the agricultural side, we will at the outset enjoy a preferential agreement vis-a-vis the EC because the Israelis do not provide any preferential access to the Community.

On the industrial side, we tried to ensure that the concessions would be phased in as quickly as possible on the Israeli side to ensure that in the future our industrial exporters would not face a disadvantage.

Mr. **Frenzel**. Thank you very much.

Going back to Mr. Schulze's question on duration, while the duration is potentially infinite, all of the reductions of duties, and so forth, are completed after 10 years, is that correct?

Ms. **Cooper**. Yes.

Mr. **Frenzel**. I had one other question on the business of Government procurement wherein the United States agrees to reduce our Buy American restrictions in return for the Government of Israel doing the same thing.

What is required for us to make those reductions? Does it go beyond the Presidental declaration or must we modify certain phases of our law, particularly continuing law in DOD procurement and mass transit procurement, and so forth.

Mr. **Gingrich**. Mr. Frenzel, we believe that an amendment to the law is required or at least preferable. We have been discussing this both interagency and with the staffs of the Finance and Ways and Means Trade Subcommittees. At this point, we think we are going to propose an amendment that will permit the waiver.

Mr. **Frenzel**. Will it be a part of what we pass here?

Mr. **Gingrich**. Yes.

Mr. **Frenzel**. It will have to be, will it not?

Mr. **Gingrich**. Yes. It will be part of the implementing legislation we will send to the Hill. That is our present position.

Mr. **Frenzel**. Do you expect a difficulty?

Mr. **Gingrich**. No. It is a very narrowly drawn waiver authority. It is a waiver to authority within the context of the agreement, that is, the threshold on both sides from 156 down to 50,000. All the existing exceptions, including the so-called Berry amendment and the small business minority set-asides will continue to apply. They will not be touched. So we do not think it is a controversial amendment that we are going to propose.

Mr. **Frenzel**. Thank you very much.

I think the USTR has done a splendid job, albeit they have been too generous in protecting Mr. Anthony's constituent industries. Still it is a landmark agreement and we are very proud of you.

Ms. **Cooper**. Thank you.

Chairman **Rostenkowski**. Any further questions?

Mr. Moore.

Mr. **Moore**. Mr. Chairman, I just want to make a very brief comment, that I agree with the gentleman from Minnesota in classifying this as a landmark agreement. I agree fully.

I have had the opportunity to visit Israel and had the opportunity to serve on the trade subcommittee of this committee. This agreement makes eminent sense, not only in the best interests of the United States, but it also helps a very strong ally of ours in a very troubled part of the world, and it makes sense since the European Economic Community, as the gentleman from Minnesota had indicated, already had this advantage in trading in Israel, and we are just being foolish not to extend it to this country, that same advantage, as well as reciprocally Israel to us.

Last, we are always trying to find things to do to improve our trade balance. This is one of the quickest things I think we can do to help an ally and also help our own domestic trade problems. So I am very strongly in favor of this agreement.

Ms. **Cooper**. Thank you, sir.

Mr. **Anthony** [presiding]. Ms. Cooper, I have an inquiry. Maybe my staff can give it to you.

I submitted a letter regarding the Bromine Compound, TSUS number 425.9440. Have you had the opportunity to review my questions on this compound?

It was my understanding that there were some conversations that indicated that this particular compound would be phased in over a long period of time; However, when I look on your list, I see that it will receive favorable treatment immediately.

Do you recall whether or not there were any discussions in which the Bromine Alliance understood that this one item would be phased in?

Ms. COOPER. Yes, sir. We discussed this issue on several occasions with the Bromine Alliance.

Mr. ANTHONY. I guess the followup question is, it was our understanding this would be phased in, and now we see it is not.

I wonder if you could give us some explanation on that?

Ms. COOPER. I think the problem was that the duty reductions are being made at the five digit USTS level and the discussions addressed at the seven digit USTS level, We will look into it again with the industry and ensure that they understood why we acted as we did.

Mr. ANTHONY. I think this was one of the compounds that I specifically questioned in the letter that I hand-delivered to Mr. Brock the other day. So if you could, as soon as possible, have some detailed explanation regarding these items, it would be most helpful.

Ms. COOPER. We will, sir.

Mr. ANTHONY. Thank you very much.

Any other members?

Mr. GREGG. Yes.

I would just like to be on record as saying I think this agreement makes tremendous sense. I would hope we could institute it on a fast track, and it seems to me that I disagree with Mr. Pease's approach. It seems to me this is a concept which does have viability beyond just dealing with Israel and we should take a look at whether or not there are other nations where we can take this sort of approach.

Second, I think we have to have a fair amount of respect for Israel's decision to go forward on this. They are dealing with a giant. They are not a large country. They are putting at risk, I think, a great deal in taking part in this agreement. And I think it shows a tremendous amount of spunk and commitment on their part.

Mr. ANTHONY. Are there any other members that seek recognition? [No response.]

If not, thank you very much.

Ms. COOPER. Thank you, sir.

[The following was received for the record:]

QUESTIONS FOR THE RECORD—UNITED STATES-ISRAEL FREE TRADE AREA AGREEMENT

Question. In your September 20, 1984 letter to Senator George Mitchell (D-ME) you assure him that insofar as textiles, apparel, footwear and other leather-related products were concerned that—and I am quoting now—"It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products over a multi-year period and more gradually than in regard to other products."

I understand that Senator Mitchell spoke of your commitment on the Senate floor just prior to the vote to authorize the Israeli free trade area. Your commitment regarding how these products would be treated was taken as a matter of good faith by a number of Senators, such as Senators Warner, Thurmond and Cohen who were reassured by your letter to Senator Mitchell. That they were reassured by your commitment was evidenced by their remarks on the Senate floor just prior to the vote.

However, for many of the products in question, your negotiations have completely ignored your commitment to Senator Mitchell. For example, I know of at least two leather products which are highly import sensitive whose duties will go to zero immediately—leather handbags and leather wearing apparel. With respect to the latter, several years ago, it was the subject of a unanimous ITC affirmative injury finding. It also happens to be a product in which Israel is very competitive in our market. Footwear is another example. This is an industry in such bad shape due to imports that the Senate Finance Committee recently requested the ITC to reopen the Section 201 escape clause case. Yet virtually all footwear duties will be phased out in five years. These cases do not meet your own criteria of "more gradually than in regard to other products", duties on which are being phased out over 10 years. Moreover, there are many, many textile products which are either being phased out immediately or on a faster timetable than for other products. You were committed to doing one thing, but the U.S. offers reflect something quite different. How do you explain this?

Answer. I have committed to providing extended staging on those products which could be considered sensitive in the context of our bilateral agreement with Israel. I believe firmly that the U.S. offer lives up to that commitment. I am keenly aware of the tremendous problems being faced by the U.S. textile, apparel, footwear and leather-related products industries in the United States. However, Israel is a significant producer in only a few items in these categories. For most of these products, Israel is a net importer from the United States. In the textile, apparel and footwear sectors, the import-to-consumption ratios are zero. In the case of leather wearing apparel, the import to consumption ratio is 0.2.

In negotiating this agreement, our negotiators took into account the capacity of Israel to produce a product and the extent to which the country's production capability would have an impact on the U.S. industry, not just the overall sensitivity of a sector. We carefully reviewed expert advice given us by the U.S. International Trade Commission, which did not indicate that any of these products from Israel was sensitive in the context of this agreement. We also used detailed analysis from industry experts, import-to-consumption ratios, and historical data on the trade in individual products to determine the staging of products. I believe that the staging reflects careful consideration of the trade patterns and trade potential in each item. However, it also represents the result of a negotiation for which we received, as well as gave. The placement of some products in the immediate stage by both sides reflects an interest in providing balance to the agreement.

I want to point out to you that this agreement is a reciprocal one. We are looking for export opportunities, ways to expand our trade with other countries. Currently, the United States faces a disadvantage in the Israeli market on products such as textiles, apparel and footwear as a result of the European Community-Israel preferential trade agreement. The U.S.-Israel agreement will eliminate that disadvantage and allow American producers an equal footing in the Israeli market. It is clear that we can compete in the Israeli market under this agreement if we try.

Question. Prior to House and Senate passage of the U.S.-Israel free trade area legislation, you stated that the Administration viewed Israel's commitment to phase out export subsidy programs in a relatively short period of time as a precondition to the conclusion of a free trade agreement between the United States and Israel. For most export subsidy programs, however, the agreement provides 5 and 6 years before Israel's export subsidy programs will be eliminated. Yet, duty cuts will have been phased out and in some cases eliminated entirely on these leather-related and textile products while subsidies continue to be allowed on Israeli exports of like products to our market. To make matters worse, Israel, by virtue of the fact that it will sign the Subsidies Code based on commitments to end their export subsidy 5 or 6 years down the road, will immediately receive benefit of the injury test in any countervailing duty case which is brought by the ITC. Is this what the Administration had in mind as an effective subsidies commitment on the part of Israel?

Answer. First of all, I would like to clarify some of the details outlined in your question. Of the four Israeli programs we have determined to constitute export subsidies, the subsidies will be eliminated immediately upon entry into force of the agreement on the two largest (in terms of volume) programs, and within three years on a third. Thus, within three years, Israel will eliminate over 60 percent of its subsidies. The remaining program, while significant in terms of the level of subsidy, is relatively small. Its use will be frozen for four years; that is, there can be no increase in the level of support for the program. Israel has committed to phase out the program completely over the following two years.

I believe that this commitment from Israel is a realistic and fully acceptable one, particularly given the fact that Israel's rate of inflation and exchange problems have severely affected its ability to export in recent years. The six-year elimination on one program, the shekel portion of the Export Production Fund, is longer than many commitments we have negotiated. However, in light of the current economic circumstances in Israel, I do not believe that this timetable will place American firms at a severe disadvantage.

Question. As part of the agreement, Israel will be eliminating and phasing out tariffs on its products as we are on ours. However, Israel apparently has the authority under the agreement to re-impose tariffs or institute quotas to protect infant industries or for balance of payments problems. If we disagree, we can take the matter to the GATT, using the dispute settlement process. This could take months to resolve. I see this as a potential loophole or "catch-all" of the agreement. I would appreciate your thinking on this.

Answer. The answer to your question, in fact, is that the provisions of the agreement addressing balance of payments and infant industry provide greater protection from abuses by Israel than currently exists.

As the agreement has been drafted, both sides have retained their rights under the GATT in areas that are not covered by the agreement. In the areas of balance of payments and infant industries, these GATT rights provide Israel with wide latitude in the imposition of protective measures. What we have accomplished in both of these areas is to provide for greater discipline. In the case of balance of payments, actions by israel will now have to be non-discriminatory. The agreement will place preference on actions, such as surcharges, which will maintain our margin of preference over other suppliers in the Israeli market and will restrain the ability of Israel to maintain indefinite quotas which have kept American exporters out of the market altogether. In the case of the infant industry provision, it may not, as you state, be used for the institution of quotas. It does, however, provide for greater limitations on the use of protective measures for infant industry than enjoyed by Israel under the GATT. In addition, Israel's right under this provision will expire with full implementation of the agreement. We do not, by the way, expect that the infant industry provision will be used often by Israel. This is based on GATT experience and our discussions with the European Community on their experience in the implementation of their preferential trading arrangement with Israel.

With respect to a disagreement over actions by Israel for either balance of payments or infant industry reasons, the U.S. may either take the dispute to the GATT, or, as is more likely, bring the matter to the attention of the dispute settlement mechanism in the agreement, which has built-in time limits. In any event, if the United States does not agree with the resolution of the dispute, it retains its sovereign rights to take retaliatory action.

Thus these two provisions of the agreement are not catch-all and provide for greater discipline in U.S.-Israel trading relations than currently exists.

Question. Can you tell me if the duty on zippers will be reduced to zero immediately or will be phased in over a period of time?

Answer. U.S. duties on zippers will be reduced to zero immediately and Israeli duties on zippers will be reduced in three stages by January 1, 1989. Both the United States and Israel believe that this additional access to each others' markets will be of benefit.

Mr. **Anthony**. We have a panel composed of Thomas A. Dine, Sidney N. Weiss, Jay Finkel, and Dr. Philip Opher.

Chairman **Rostenkowski**. Mr. Finkel, Dr. Opher is not here?

Dr. **Opher**. Here.

Chairman **Rostenkowski**. How many people are going to testify?

Mr. **Weiss**. Three. I am just counsel to Dr. Opher.

Chairman **Rostenkowski**. Mr. Dine, welcome to the committee. Gentlemen, what we do is we have each of you testify and we will open the panel to questions. Welcome to the committee, gentlemen.

Mr. Dine, if you will lead off.

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Mr. **Dine**. Thank you, Mr. Chairman, and thank you for the opportunity to testify before this distinguished committee on the proposed United States-Israel Free Trade Area Agreement that was submitted to you and your colleagues just yesterday.

AIPAC, the American Israel Public Affairs Committee, is a domestic American lobby concerned with U.S. foreign policy in the Middle East; in particular, we work with public policy officials in Washington to further the closeness and the strength of the United States-Israeli relationship.

We come here today to support enthusiastically the Free Trade Area Agreement which has been negotiated between the United States and Israel. This is an historic agreement, one with profound implications for both countries' economic future.

I commend the members of this committee for the support they gave to the concept of a free trade area last year when approving the authorizing legislation and for the skillful ways in which difficult issues were discussed and managed. I also commend the President and, in particular, Ambassador Bill Brock for their excellent work in negotiating a comprehensive Free Trade Area Agreement of which we can be proud and which should pave the way for an increased flow of trade and investment between the two nations.

Removing trade barriers from Israeli imports, as Israel does the same for American goods and services, is a historic move for the United States as it is the only comprehensive reciprocal free trade pact ever concluded by the United States with another country. Moreover, it is a pact which will strengthen the economy of a country important to us as a strategic and stable ally in a volatile part of the world. At the same time, the agreement will enhance American commercial interests.

It is a landmark step toward solidifying the unique relationship between these two democratic nations and a way to provide mutual economic benefits for both countries. This agreement will benefit the United States in several ways, and I would like to summarize my statement, Mr. Chairman, and make seven points.

While U.S. imports into Israel in 1983 came to about $1.7 billion, over $400 million plus in terms of the balance of civilian trade, the prospects are bright for raising our exports to Israel.

Second, for the United States to stay competitive with the European Common Market, this agreement is essential.

Third, an increase in exports to a vibrant market such as Israel means an increase in American jobs from 40,000 perhaps to 80,000 if the U.S. market share increases from the present 20 percent to 40 percent.

Fourth, market shares of certain American products like computers and other office machinery will surely increase.

Fifth, the possibilities for international joint venture partnerships also increase by a factor of entrepreneurial vision and action.

Sixth, the current Israeli Government is taking strong measures to cure its economic ills and restore the nation to sound economic health. A critical component of the Peres government plan is to encourage the growth of exports and thereby improve Israel's balance of payments while simultaneously fostering economic growth.

Seventh, Israeli's commitment to reduce and eliminate export subsidies as declared in annex 4 and to enter into an agreement of this kind with the largest industrial country in the world is a statement, I believe, on the value of free enterprise, of democracy and capitalism going hand in hand—a critical adjustment by a tiny country to the risks involved in the movement of global economy led by the United States.

Mr. Chairman, in summary, establishment of a free trade area is a step we can take to help Israel while helping ourselves. In taking this step, we will join our European allies in stating Israel is a part of the community of free nations. The agreement will be good for the U.S. economy, will strengthen a vital ally in the Middle East, and reaffirm the bonds between ourselves and a sister democracy.

I urge the members of the committee to enact legislation implementing this historic agreement as soon as possible.

Thank you.

[The prepared statement follows:]

STATEMENT OF THOMAS A. DINE, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Thank you, Mr. Chairman for the opportunity to testify before this distinguished committee on the proposed Free Trade Area agreement between the United States and Israel. Appearing with me is Ms. Ester Kurz, AIPAC's deputy legislative director, and Peggy Blair, AIPAC's senior trade analyst. I will summarize my testimony and ask that the full text be inserted in the hearing record.

AIPAC is a domestic American lobby concerned with U.S. foreign policy. On our Executive Committee sit the presidents of the 38 major American Jewish organizations representing more than four-and-one-half million members throughout the United States.

We come here today to support enthusiastically the Free Trade Area agreement which has been negotiated between the United States and Israel. This is an historic agreement, one with profound implications for the future.

I commend the members of this Committee for the support they gave to this concept last year when approving the authorizing legislation and for the skillful ways in which difficult issues were discussed and managed. I also commend the President and in particular Ambassador Bill Brock for their excellent work in negotiating a comprehensive Free Trade Area agreement of which we can be proud and which should pave the way for an increased flow of trade and investment between the two nations.

Removing trade barriers from Israeli imports, as Israel does the same for American goods and services, is a historic move for the United States, as it is the only comprehensive, reciprocal free trade pact ever concluded by the U.S. with another country. Moreover, it is a pact which will strengthen the economy of a country important to us as a strategic and stable ally in a volatile part of the world, while at the same time enhancing American commercial interests. It is a lankmark step toward solidifying the unique relationship between these two democratic nations and a way to provide mutual economic benefits for both countries.

BENEFITS FOR THE UNITED STATES

For U.S. companies which sell in Israel's approximately $8 billion import market, I expect the gains from a U.S.-Israel Free Trade Area to be substantial. In fact, at least in the near term, it is expected that the U.S. will benefit more from this agreement than Israel, since most Israeli exports presently enter the U.S. duty-free whereas close to half of U.S. products encounter tariffs in Israel. Israel is one of America's top three markets in the Middle East, so tariff elimination could have a major impact.

In 1983, Israel bought approximately $1.7 billion worth of American-made civilian goods while exporting to the U.S. about $1.3 billion worth of goods. But there is considerable room for increasing that amount, as the United States currently accounts for only 20% of Israel's non-military imports, a market share only about half that enjoyed by the European Community. American-made products enjoy an excellent reputation in Israel and it is my expectation that the Israel public will purchase more U.S. goods if they are priced competitively and readily available.

Conversely, without an FTA, American-made products will face new difficulties as Israel's tariff-reduction agreement with the European Common Market comes fully into effect. If the EC nations enjoy duty-free trade but U.S. products remain subject to tariffs, a substantial price differential will be created and U.S. exports could suffer accordingly. Israeli tariffs average about 10 percent and in some product categories they are substantially higher than that. Moreover, the ultimate price effect of tariff differences is still greater at the retail level because purchase taxes are added on the basis of total cost of an item including the customs duty.

Under the FTA negotiated, American products will immediately be treated as favorably as EC products are regarding customs duties. This means that once again there will be a level playing field with Europe, and the U.S. will have a distinct competitive edge over other countries' exports to Israel.

So the stakes for the U.S. in the FTA issue are real. Using Department of Commerce export-related employment estimates, 40–50,000 jobs in the United States are currently generated by exports to Israel. An increase in the U.S. market share to 40 percent would generate an additional 40,000 U.S. jobs, while a decline to 10 percent would mean a loss of 20,000. Action taken now on the FTA could have a decisive effect on which direction this trend moves for some time to come.

American goods imported by Israel run the gamut of almost everything produced in the U.S., from grains ($61 million in wheat, $51 million in corn, and $55 million in other cereals in 1983) and soybeans ($100 million) to $1 billion in machinery and transport equipment. Many U.S. exports face a competitive market sensitive to price changes and elimination of Israeli tariffs could have a decisive impact upon the U.S. market share. After some study of the Israeli market, AIPAC's research staff concludes that the Free Trade Area could be particularly promising for increasing U.S. exports of the following products: computers and office machinery, telecommunications equipment, electronics, wood and wood products, furniture, paper and paperboard products, motor vehicles and parts, many iron and steel products, tools for base metals, appliances, textiles and apparel, alcoholic beverages, medical equipment, cigarettes, pharmaceutical products, and polymers. Many of these products will enter Israel duty-free by January 1, 1989, thereby ensuring that they will be on an equal competitive footing with EC producers at that time.

To cite one example, Israel is a rapidly expanding market for computers and other office machinery, with imports reaching $213 million in 1982. In fact, Israel is second only to the United States in per capita use of computers, and a new cycle of computerization is now underway. In 1982, half of Israel's computers and office equipment came from the United States. But early in 1983, Israel's tariff on computers was reduced by 50 percent for products coming from EC as part of the Israel-EC free trade agreement, and U.S. firms are now in danger of losing their strong market presence in Israel. As the chairman of the Federation of Israeli Chambers of Commerce recently noted.

"In many cases the American products like office equipment are clearly superior. But we buy European because duties on American goods make the European imports cheaper. The 'zone' deal would cause a gradual switch to American goods."

An FTA with Israel will also benefit American firms looking for international joint venture partners. Many U.S. companies, particularly those in the high technology area, are discovering the benefits of conducting research and development activities in cooperation with Israeli firms. Israel has one of the highest per capita ratios of scientists and engineers in the world and is striving to increase that number. So, although Israel is not cheap labor enclave, the country does offer a diversified and technically skilled labor force well known for its innovation. In addition, as joint ventures develop, Israeli firms will increasingly utilize American components and production machinery which will further stimulate U.S. exports.

BENEFITS FOR ISRAEL

Israel is currently facing a serious economic crisis. Much has been written about Israel's budgetary, fiscal, and monetary problems: a high rate of inflation, slowed economic growth, balance of payments and budget deficits, and growing foreign debt. These economic problems are rooted in a number of structural burdens, many of which are unique to Israel. The country carries one of the highest defense burdens per capita in the world (22% of gross domestic product, compared to 7% in the U.S. and 1% in Japan) and this has taken a heavy toll upon the economy. Israel is also extremely dependent upon the global economy, with almost half its Gross National Product exported and imports in civilian goods and services alone equivalent to about 60% of GNP. This makes Israel extremely vulnerable to changes in the world economy.

The current Israeli government is taking strong measures to cure these ills and restore the nation to sound economic health. A critical component of the government's plan is to encourage the growth of exports and thereby improve Israel's balance of payments while simultaneously fostering economic growth. The Free Trade

Area, by assuring Israeli firms of secure and unfettered access to the American market, will help the country achieve this goal.

Another key component of Israel's plan is to shift gradually resources and manpower out of the public sector and into the private sector, and out of inefficient, subsidized industries into internationally competitive productive ones. As the Government of Israel implements some $2 billion worth of budget cuts over the next year, it is likely that many public employees, perhaps as many as 15,000 will lose their jobs. It is hoped that Israel's highly productive private sector can absorb at least a portion of these people. With a Free Trade Area in place, those sectors in which Israel is most competitive in the international marketplace will flourish. This will help Israel in its restructuring process.

Since work began toward the establishment of an FTA, some concerns have been raised by particular industries about the effect of Israeli products coming in duty-free and competing with comparable products made in the U.S. These industries have been allowed ample opportunity to discuss their concern, both with the Administration and with members of Congress, through a series of public hearings and meetings.

Similar concerns have been raised by certain Israeli industries as well, perhaps with more justification considering the respective size of the two countries and therefore the difference in impact. It is worth noting that while Israel accounts for only about 1% of American imports, the United States comprises 20% of the Israeli market.

From what I have seen, I believe that U.S. and Israeli negotiators have reached a good and just compromise to deal with more sensitive sectors by phasing in tariff reductions gradually over a period of years for such products. This will allow for a gradual transition and avoid any abrupt shocks for either country. We understand that for those products that were determined by the U.S. International Trade Commission to be import-sensitive, duty rates will be frozen for five years after which time the ITC will advise on further reductions. Even for such products as textiles and apparel, which the ITC reportedly did not find to be sensitive to imports from Israel, a careful compromise was negotiated so that some items will not be duty-free until 1989, and others not until 1995.

On textiles, it is important to bear in mind that the discussion is not about Hong Kong, China, or Korea, but Israel, a relatively high wage country of just a few million people, whose share of American textile imports is about two-tenths of one percent. Just this week, Israel's largest textile company laid off 420 employees and more are expected to be let go in the coming weeks.

Moreover, American textile exporters have much to gain in the Israeli market. Of the $227 million worth of dutiable textiles and apparel Israel imported in 1982, $35 million of 15.4 percent, came from the U.S. While this is a significant share of the import market, it could be much higher. Over half of Israel's textile imports came from four EC countries: West Germany, Italy, United Kingdom, and France. These EC members benefit from reduced textile and apparel tariffs as a result of the phasing in of the EC-Israel free trade agreement and by 1989 will enjoy full duty-free access to the Israeli market. But a U.S-Israel FTA would allow American producers to compete on the same terms as their EC counterparts and would provide an opportunity to increase the U.S. share of Israel's valuable import market. This is especially the case for synthetic fibers and materials—an area in which the U.S. industry is most competitive and Israel's tariff is relatively high.

Several agricultural organizations and producers publicly testified for complete exclusion of certain specialty food crops from the agreement. AIPAC opposed this and other efforts to exclude particular items from the negotiating table on the grounds that this would undercut the very principles behind the agreement and would leave both countries vulnerable to charges of illegality under the rules of the General Agreement on Tariffs and Trade (GATT). The final agreement appears to deal fairly with the problem of specialty food crops by putting a five-year freeze on tariff reduction for those U.S. items the ITC found could in any way be affected by increased Israeli competition: processed tomatoes, dehydrated onions and garlic, citrus juices, roses, and olives. The tariff rates will be eliminated gradually between 1990 and 1995, as determined by the U.S. and Israel after additional advice from the ITC. I believe this gives these producers ample time to adjust for any increased competition from Israel, especially considering the country's small size, its limited resources such as land and water, and its inability to greatly increase production capacity.

Moreover, since the EC-Israel FTA does not cover agriculture extensively, eliminating Israeli duties for U.S. agricultural products could give American producers a distinct competitive advantage. Dutiable U.S. agricultural exports to Israel which would be positively affected by an FTA include: tobacco and tobacco products, some alcoholic beverages, some processed fruit and vegetables, certain processed grain and mill products, coffee, other beverages, and jams and jellies. In addition, farm products presently coming into Israel at 0 duty such as certain grains and soybeans, will upon implementation of the FTA be bound at that rate, which means that Israel cannot unilaterally increase the duty on these items as presently is the case on these items. This is an advantage that Israel did not give to the European Community. Thus, U.S. agriculture as well as manufacturing industries will gain from an FTA.

We also are aware that three American firms which manufacture brominated products were concerned about increased competition from Israel. Here, too, a careful compromise was crafted, whereby those brominated products which were found by the ITC to be possibly affected by duty-free Israeli goods will have their present tariff rates frozen until 1990. Then after further advice from the ITC the U.S. and Israel will decide upon a mutually acceptable pace for phasing in the elimination of duties on these products.

It is worth noting that Israel is making considerable sacrifice to achieve this agreement because of the long-term economic benefits it promises and the prospect of strengthening the already strong ties between the two nations. Over 90% of Israel's products already come into the U.S. duty-free, due to U.S. tariff concessions and the duty-free treatment enjoyed by Israel as part of the one-way generalized system of preferences (GSP) program. Under this FTA agreement, Israel is committing itself to a reciprocal, mutual elimination of trade barriers, and to opening itself to free competition in its own market with one of the world's industrial giants. At least in the short term, it is clear that the United States is not only exposing itself to fewer risks but also gaining greater advantages than Israel.

In addition, Israel has agreed to phase out about two-thirds of the value of its export subsidies programs within three years. Many subsidies will be eliminated immediately upon implementation of the agreement. This is a heavy obligation for Israel at a time when the country is under considerable economic pressures and is trying to do the utmost to improve its balance of payments. This is also a much stronger commitment than any other developing country has made to date in eliminating subsidies, especially considering that the GATT rules make special allowance for such countries' development needs. But Israel, unlike many other countries in the world, recognizes that free trade must be a two-way street.

In summary, establishment of Free Trade Area is a step we can take to help Israel while helping ourselves. In taking this step, we will join our European allies in stating that Israel is a part of the family of free nations. The agreement will be good for the U.S. economy, will strengthen a vital ally in the Middle East, and will reaffirm the bonds between ourselves and a sister democracy.

I urge members of the Committee to enact legislation implementing this historic agreement as soon as possible.

Thank you for the opportunity to testify.

Mr. GIBBONS [presiding]. Thank you, Mr. Dine. I want to thank you personally and your organization for the splendid constructive help you provided in drafting this agreement.

Mr. DINE. I appreciate your words.

Mr. GIBBONS. Our next witness is the American-Israel Chamber of Commerce and Industry, Inc.

Mr. SIDNEY N. WEISS. Mr. Weiss.

Mr. WEISS. Our executive vice president, Dr. Opher, will testify.

Mr. GIBBONS. Yes, Dr. Opher.

STATEMENT OF PHILIP OPHER, PH.D., EXECUTIVE VICE PRESIDENT, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC., ACCOMPANIED BY SIDNEY N. WEISS, COUNSEL

Mr. OPHER. Mr. Rostenkowski, Mr. Gibbons, and members of the committee, I am Philip Opher, executive vice president of the American-Israel Chamber of Commerce and Industry, Inc. I have a Ph.D. in economics with a specialty in international economics.

Today I am testifying in support of the proposed Free Trade Area Agreement on behalf of the American-Israel Chamber of

Commerce and Industry, Inc. With me is Sidney N. Weiss, special counsel to the chamber on trade matters. The chamber is a U.S. nonpolitical and nonsectarian trade association comprising hundreds of U.S. corporations. Our membership consists of some of the most important exporters of U.S. products to israel, importers of israeli products into the United States, and American investors in Israel. The organization is the recipient of the E Award of the President of the United States "for an outstanding contribution to the export expansion program of the United States of America."

The benefits of the Free Trade Area Agreement are as follows:

The FTA Agreement accomplishes this in the following manner:

First, as part of this agreement, the Israeli Government has agreed to sign the GATT Subsidies Code and to eliminate export subsidies.

Second, each party has agreed to ensure that its investment legislation and regulations do not require export as a condition of establishing, expanding or maintaining investments by the other party in its territory.

Third, the agreement contains guarantees by each party to ensure the protection of the other's intellectual property rights.

Fourth, the parties agree to a nonbinding declaration on trade in services which may serve as an example for future negotiations and agreements related to services.

In general, I would say that the United States has worked hard to introduce these four provisions into trade agreements with foreign countries and the fact they are present in the agreement with Israel could be an inmportant precedent for our relationship with other countries.

The fifth advantage for the United States from this agreement relates to the value-added requirements. While the rules of origin in this agreement regarding the value-added requirements appear at first reading to be symmetrical, they actually favor U.S. industry. That is because Israel has very limited raw materials to export while the United States is a major supplier of raw materials to Israel. By allowing 15 of the 35 percent—that is over four-tenths—added value to be produced in the country of destination of the goods, the agreement encourages manufacturers who export to buy raw materials from the country of intended marketing. Therefore, the United States, being the supplier of such products will tend to be favored.

Sixth, the $8 billion per year Israel import market will gradually open to the United States industrial exports on a trade-barrier-free basis. Currently, United States products, and other countries' products, are subject to custom duties, which especially in the consumer field are quite high. With the elimination of all tariffs on products originating in the European Community by 1989, the United States will be in a clear disadvantage in the Israeli market, and we do not want this to happen.

Seventh, the Free Trade Area will give the United States easier terms of entry into the European Common Market. Fortuitously, both the European Economic Community and the United States will have Free Trade Areas with Israel. Therefore United States products shipped to Israel, physically transformed and with added value, will be granted duty-free into the European Economic Community by virtue of the Israel-European Free Trade Area.

There are a number of advantages for Israel, but I shall summarize my presentation by speaking only about one advantage. There is a great advantage for Israel when we compare the Free Trade Area Agreement with the present Generalized System of References under which a great part of the Israeli products are imported into the United States.

The first advantage for Israel of a Free Trade Area is higher certainty in regard to the status of its future exports to the United States. Under the present GSP system, a country, product, or "country-product pair" may be "graduated,"that is eliminated from GSP benefits if certain limits are reached.

The higher certainty will enable the Israel manufacturers as well as the American market to make longer term rational decisions.

As a representative of an American business community organization, I would like to point out that the agreement gives a role not only to governments, but as well to the initiative of business. For example, certificates of origin by U.S. exporters would be certified by Chambers of Commerce and Boards of Trade. This reinforces the responsibility of such organizations in the implementation of the task at hand.

Our conclusion is the Free Trade Area would expand business initiative, create jobs and lower prices for both the United States and Israel. Therefore, it is eminently in the national interest of the United States. Accordingly, Congress should act favorably on this agreement.

Thank you.

[The prepared statement follows:]

STATEMENT OF PHILIP OPHER, PH.D., EXECUTIVE VICE PRESIDENT, AMERICAN-ISRAEL CHAMBER OF COMMERCE AND INDUSTRY, INC.

INTRODUCTION

I am Philip Opher, Executive Vice President of the American-Israel Chamber of Commerce and Industry, Inc. I have a PhD in Economics with a specialty in international economics. Today, I am testifying in support of the proposed Free Trade Area Agreement on behalf of the American-Israel Chamber of Commerce and Industry Inc. With me is Sidney N. Weiss, special counsel to the Chamber on trade matters. The Chamber is a United States non-political and non-sectarian trade association comprising hundreds of United States corporations. Our membership consists of some of the most important exporters of United States products to Israel, importers of Israeli products into the United States, and American investors in Israel. The organization is the recipient of the E Award of the President of the United States "For an Outstanding Contribution to the Export Expansion Program of the United States of America".

As a trade association concerned with trade between Israel and the United States, we have consulted a number of our member firms as well as other firms doing business with Israel on the matter of establishing a Free Trade Area between the United States and Israel. We found the American business community doing business with Israel supports the establishment of the Free Trade Area.

The Chamber is active in the development of trade and investment between Israel and the United States. As such, we support the passage of the Free Trade Area Agreement.

In our view, the elimination of trade barriers contemplated by this Agreement will have a salutary effect on the expansion of bilateral trade between the United States and Israel. We believe that Congress should give this Agreement prompt approval.

I. Benefits of the free trade area to Israel and the United States

The benefits of the Free Trade Area Agreement to each of the two member countries would be significant, although not identical.

A. Benefits to the United States

The benefits to the United States from the implementation of the Free Trade Area Agreement are as follows:

In this Agreement, the United States is receiving significant concessions in a trade negotiation and agreement with one of its trading partners. In fact, the concessions received by the United States at least match anything that Israel is receiving as part of this Agreement. This country's ability to obtain such a far reaching Agreement on favorable terms will be a forceful example to our other trading partners clearly indicating to them that if they desire to export to the world's largest market, they must open their own markets to our products and services on an equitable basis.

The FTA Agreement accomplishes this in the following manner.

First, as part of this Agreement, the Israeli government has agreed to sign the GATT Subsidies Code and to eliminate export subsidies.

Second, each party has agreed to ensure that its investment legislation and regulations do not require export as a condition of establishing, expanding or maintaining investments by the other party in its territory.

Third, the Agreement contains guarantees by each party to ensure the protection of the other's intellectual property rights.

Fourth, the parties agree to a non-binding declaration on trade in services which may serve as an example for future negotiations and agreements related to services.

These four factors have been of paramount concern to our country in trade negotiations with our trading partners worldwide.

Fifth, while the Rules of Origin in this Agreement regarding the value-added requirements appear at first reading to be symmetrical, they actually favor U.S. industry. That is because Israel has very limited raw materials to export while the United States is a major supplier of raw materials to Israel. By allowing 15 of the 35 percent (that is over 4/10ths) added value to be produced in the country of destination of the goods, the Agreement encourages manufacturers who export to buy raw materials from the country of intended marketing. Therefore, the U.S., being the supplier of such products will tend to be favored.

Sixth, the $8 billion yearly Israeli import market will gradually be open to United States industrial exports on a trade-barrier-free basis. Currently, United States products (and other countries' products) are subject to custom duties, which especially in the consumer field are quite high. In addition, in the Appendix to this testimony, we have set out a listing of the duties on products from the European Community and the United States together with the percentage of the market held by United States imports. With the elimination of all tariffs on products originating in the European Community by 1989, the United States will be in a clear disadvantage in the Israeli market without a Free Trade Area. With a Free Trade Area, the United States will unquestionably increase its market share.

We expect that elimination of Israeli customs duties will open the Israeli industrial goods' market to American products on the basis of quality and price, without distortions due to tariff and non-tariff barriers. The United States' success to selling American products in Israel in competition with European, local and other products will assume global significance. The successful sale of United States products in Israel on a free trade basis will be conclusive proof to other countries, with much larger markets, of the feasibility to eliminate barriers and disincentives to the importations of United States products.

Seventh, the Free Trade Area will give the United States easier terms of entry into the European Common Market. Fortuitously, both the European Economic Community and the United States will have Free Trade Areas with Israel. Therefore United States products shipped to, physically transformed and with added value, will be granted duty-free into the European Economic Community by virtue of the Israel-European Free Trade Area.

Of course, in certain respects, the same can be done even today if administrative steps taken, involving drawbacks to customs duties paid for those raw materials from which exported goods are being manufactured. The Free Trade Area, however, will help get rid of burdensome paperwork and difficult-to-retrace pricing distortions.

Finally, the existence of the United States and European Free Trade Areas with Israel will encourage much closer economic cooperation between the United States and Israel. It will serve as an incentive to the establishment of joint ventures in ventures in Israel to help market the products of United States high technology on a duty-free basis throughout Europe.

B. Benefits to Israel

Israel's exports are disadvantaged in the world marketplace because of factors not related to the quality and efficiency of its products. These disadvantages would be reduced by the Free Trade Area. Israel currently has one of the largest per capita debts of any country. This is primarily the result of its expenditures on defense. To service and retire its debt, Israel must export a geat part of its production. Because of the political situation in the Middle East, Israel's trade with its neighbors is negligible. Thus, together with its extraordinary military burden, Israel has to transport its exports thousands of miles.

Moreover, much of the exports from the world's developing countries rely on low cost labor. Israel is an exception to this rule. The quality of the Israeli worker coupled with the fact that Israel is a deeply rooted democracy with highly organized labor movement, results in Israeli products being known for their technological advancement, sophistication and style. rather than low price. Consequently, Israeli products are ofter uncompetitive in countries imposing high or restrictive tariffs.

In recognition of these factors, and in accordance with its own interests, the European Economic Community has established a Free Trade Area with Israel. The European-Israel Free Trade Area provides that the zero tariff level will be reached by 1989 for almost all non-agricultural commodities and products.

At present, approximately 90% of Israeli exports to the United States are entered free of duty. Over one-third of those exports are entered under the Generalized System of Preferences (GSP). The GSP, while beneficial to Israel, contains certain drawbacks to Israel, which would be eliminated by the establishment of a Free Trade Area. In fact, the proposed Free Trade Area would have a number of advantages to Israel.

The first advantage for Israel of a Free Trade Area is certainty in regard to the status of its future exports to the United States. Under the present GSP system, a country, product, or "country-product pair" may be "graduated", that is eliminated from GSP benefits if certain limits are reached. In 1984, for example, if a country accounted for more than $63.8 million of the imports of an article to the United States or over 50% of the value of total imports of that article, then its GSP benefits for that product would be eliminated. In addition, for certain products, these limits may be reduced to 25% and $25 million. Under the Free Trade Area proposal, there would be no threat of elimination, once the qualifying products were identified. This would enable the market to make rational decisions on production, capacity and the like.

The second benefit for Israel of a Free Trade Area with the United States is expanded access to the United States market. Israeli articles will not be restricted to the GSP annual dollar limit. In addition, all products, whether presently dutiable, free of duty, or GSP, would be gradually free of duty under the Free Trade Area proposal.

The third advanatage for Israel of a Free Trade area with the United States is the fact that access to the United States market would be a free, open and reciprocal basis, unencumbered by extraneous constraints. The Free Trade Area will be a concrete expression of the benefits to be realized from free trade. Each country's products will compete freely in the marketplace of the other. As a result, considerations such as per-capita GNP and other criteria not directly related to the subject would not be the determinants of one country's products ability to be successfully sold in the market of the other. Efficiency, quality and price would be the only determinants of the competitive advantage for a product of one country in the market of the other country.

CONCLUSION

The advantage of a Free Trade Area are numerous. In addition to deepening an important commercial relationship, a Free Trade Area will tend to lower prices and create jobs and new opportunities in both the United States and Israel without damaging United States interests.

Accordingly, we request that Congress should act favorably on this Agreement.

APPENDIX—PERCENT OF CUSTOMS DUTIES ON CERTAIN CONSUMER PRODUCTS

Description	Rate of duty		U.S.A. total imports
	U.S.A.	EEC	
Tractors	20	20	21
Passenger cars up to 1,800 CM^3	25	25	0
Passenger cars over 1,800 CM^3	32.5	32.5	20
Light transport vehicles	25	25	1
Clocks	20	14.8	3
TV's	22	20	0
Paper paperboard	28	22.5	13
Fabrics of synthetic fibers	14.9	10.6	18
Felt fabrics	22.5	13.1	4
Bonded fiber fabrics	22.5	15.7	24
Footwear, outer sole—leather	20	20	2
Glasswear for table, kitchen, etc.	20	20	6
Bolts, nuts, screws of iron	30	30	67
Cigars	24	15	27
Tobacco	20	12.5	28

Note.—All Customs duties on the above products will be lifted completely on products originating from the European Economic Community by 1987.

Mr. GIBBONS. Thank you, Dr. Opher. We have enjoyed excellent relationships with your organization during the work on this bill also.

Now for the Zionist Organization of America, Mr. Finkel.

STATEMENT OF E. JAY FINKEL, COUNSEL, ZIONIST ORGANIZATION OF AMERICA

Mr. FINKEL. Thank you, Mr. Chairman.

I am E. Jay Finkel of the Washington office of Porter, Wright, Morris & Arthur, an Ohio law firm. I am representing today the Zionist Organization of America [ZOA] which has strongly supported the United States-Israel free trade area concept since the idea was first put forward.

ZOA warmly welcomes the draft agreement released yesterday by the U.S. Trade Representative and, at the same time, recognizes the valuable and constructive role of the members of this committee in arriving at the present stage of this matter.

In broad terms, ZOA extends its support for five reasons:

First, the draft agreement achieves the objectives sought by the United States. By entering into the arrangement, we will avoid being disadvantaged in the Israeli market in comparison to the countries of the European Common Market, for which Israeli industrial tariffs will be zero across the board by 1989.

Second, the draft agreement responds as well to Israeli objectives, by providing long-term access to the U.S. market without the uncertainties involved in the GSP.

Third, the draft agreement is the vehicle for a number of nontariff undertakings that will be beneficial to U.S. business and that set desirable standards for compliance by other U.S. trading partners.

Regarding subsidies, Israel would undertake to reduce and ultimately eliminate the export subsidy element in its various production incentive programs.

Regarding Government procurement, the United States and Israel would open new opportunities for each other in line with the principles of the GATT code on Government procurement.

Regarding services, both countries would undertake to maintain an open system of services exports with minimum restrictions on flows in each direction. As both countries evolve in the direction of services economies, it will be increasingly important to assure such openness in trade and services, including freedom for rapid, digitized transborder flows of data to scale that are the hallmark of the high-tech economies of the future.

Fourth, the draft agreement itself and the accompanying implementing legislation make it clear that U.S. producers will continue to be able to have recourse to the trade remedies embodied in U.S. law. No existing orders under countervailing or antidumping duty statutes will be altered by the initiation of the free trade area.

Finally, by addressing all goods traded by the two countries, the agreement retains its GATT-compatible character. It is intended to promote the expansion of world trade, not its contraction, and it holds the promise of encouraging new investments to take place, new goods to be developed, new jobs to be created.

In conclusion, Mr. Chairman, the United States-Israel free trade area is an innovation in U.S. trade policy that has clear and substantial benefits in both directions. Based on 1982 trade data, the United States will reduce duties to zero on $0.5 billion of Israeli goods, while Israel will reduce duties on $1.3 billion of U.S. goods. It would make sense for the United States in purely economic terms, even if there did not exist the close political and cultural relationship that the two participants have historically enjoyed.

ZOA urges this committee to give favorable consideration to the agreement and legislation when it is formally submitted.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF E. JAY FINKEL, ESQ., PORTER, WRIGHT, MORRIS & ARTHUR, WASHINGTON, DC, ON BEHALF OF THE ZIONIST ORGANIZATION OF AMERICA

I am E. Jay Finkel, Esq., of the Washington office of Porter, Wright, Morris and Arthur, an Ohio law firm. I am representing today the Zionist Organization of America—ZOA—which has strongly supported the U.S.-Israel free trade area concept since the idea was first put forward.

ZOA warmly welcomes the draft agreement released yesterday by the U.S. trade representative. In broad terms, ZOA does so for five reasons:

First, the draft agreement achieves the objectives sought by the United States. By entering into the arrangement, we will avoid being disadvantaged in the Israeli market in comparison to the countries of the European Common Market, for which Israeli industrial tariffs will be zero across the board by 1989. We will gain this improved position without inflicting harm on our own industries, since the phase-in timetable provides ample time for adjustments, and special provision is made for the most import-sensitive products. And we will enjoy lower cost access both to desirable Israeli-produced consumer items and to the fruits of Israel's high-technology research and production, especially in the medical, computer and telecommunications fields.

Second, the draft agreement responds as well to Israeli objectives, by providing long-term access to the U.S. market without the uncertainties involved in the GSP. Such access is particularly important for Israel in the light of the constraints on the normal development of its trade within its own geographic region.

Third, the draft agreement is the vehicle for a number of non-tariff undertakings that will be beneficial to U.S. business and that set desirable standards for compliance by other U.S. trading partners:

Regarding subsidies, Israel would undertake to reduce and ultimately eliminate the export subsidy element in its various production incentive programs. In this regard, Israel would also accede to the GATT subsidy code and adhere to the OECD Consensus on export credits. By so doing, Israel would go well beyond the undertakings of other advanced developing countries and would be accepting obligations characteristic of developed countries.

Regarding government procurement, the U.S. and Israel would open new opportunities for each other in line with the principles of the GATT code on government procurement, and in fact would allow inclusion of even smaller transactions than those called for in the GATT code.

Regarding services, there is in the draft agreement and in an accompanying declaration of principles a most important undertaking by both countries to maintain an open system of services exports with minimum restrictions on flows in each direction. It is likely that over the phase-in period of the agreement, Israel will evolve rapidly in the direction of a services economy, capitalizing on the brainpower and expertise that are its most valuable resources, and generating embodied engineering and scientific knowledge as its most important single product. Such an economy requires, in addition to openness in traditional services, full freedom for rapid, digitized transborder data flows in scale appropriate to its services orientation if an effective link to parallel developments in the United States is to be forged. The declaration of principles is a start, but only a start, in this direction. It is, happily, consistent with efforts the United States is making in the broader GATT context toward inclusion of services as a major element in a new round of multilateral trade negotiations.

Fourth, the draft agreement itself and the accompanying implementing legislation make it clear that U.S. producers will continue to be able to have recourse to the trade remedies embodied in U.S. law. No existing orders under countervailing or antidumping duty statutes will be altered by the initiation of the free trade area. Further, the origin rules of the draft agreement have been conformed exactly to those already established for the Caribbean Basin Initiative (CBI), and thus do not create any new problems or precedents.

Finally, by addressing all goods traded by the two countries, the agreement retains its GATT-compatible character. It is intended to promote the expansion of world trade, not its contraction, and it holds the promise of encouraging new investments to take place, new goods to be developed, new jobs to be created.

The U.S.-Israel free trade area is an innovation in U.S. trade policy. Based on 1982 trade data, the United States will reduce duties to zero on $0.5 billion of Israeli goods, while Israel will reduce duties on $1.3 billion of U.S. goods. It is thus an innovation with clear and substantial benefits in both directions. It would make sense for the United States in purely economic terms, even if there did not exist the close political and cultural relationship that the two participants have historically enjoyed. ZOA urges this Committee to give favorable consideration to the agreement and legislation when it is formally submitted.

Mr. GIBBONS. Thank you, sir.

Are there questions from this panel?

Mr. DUNCAN. I have no questions.

Mr. FRENZEL. Mr. Chairman, I want to reiterate your statement to the members of the panel who were helpful to us in the USTR—as this agreement was in construction—and tell them how much we appreciate their support as we go through the whole process.

Mr. GIBBONS. Mr. Schulze.

Mr. SCHULZE. Mr. Chairman, I would only echo your words and the words of my colleague, and I think assure the panel that this is the beginning of the fasttrack process and it will be completed probably fairly quickly.

Mr. GIBBONS. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

I would just like to also add my thanks to the three witnesses, in particular the gentleman I know the best, Mr. Dine. We certainly appreciate the three of you being here. We all agree, I think, this is a very fine day indeed. This which has been talked about for so long is now at the point of eminently becoming a treaty between these two great allies and countries, and we certainly appreciate your support.

Let us see to it that we have the way paved ahead of us to get this passed through the Congress in very quick order.

Thank you.

Mr. GIBBONS. Any further questions? [No response.]

Thank you very much. I appreciate your coming and your help. Our next panel of witnesses is from the American Fiber, Textile, Apparel Coalition, Mr. Eisen, who is the chairman; the American Textile Manufacturers Institute , Mr. Bremer; the Leather Products Coalition, Mr. Nehmer.

Mr. Eisen, you are recognized.

STATEMENT OF ROBERT F. EISEN, CHAIRMAN, GREENWOOD MILLS MARKETING CO., ON BEHALF OF THE AMERICAN FIBER, TEXTILE, APPAREL COALITION

Mr. EISEN. Mr. Chairman and members of the committee, my name is Robert F. Eisen. I reside in Garden City, NY. I am chairman of the marketing division of Greenwood Mills, Inc., a textile manufacturer employing over 6,000 workers in its plants in South Carolina.

My statement is on behalf of the American Fiber, Textile, Apparel Coalition, a group of 21 associations and unions representing most of the U.S. complex of the fiber, textile, and apparel industries.

This complex has been severely impacted by the sharp increase in imports in 1984 which reached an all-time record level of 9.8 billion square yard equivalent, which is a 32-percent increase from the 1983 previous record level of 7.4 billion square yard equivalent. The 1984 textile and apparel trade deficit also hit a record level of $16 billion, a 53-percent increase over 1983's previous record of $10.5 billion. This deficit is 13 percent of the Nation's total merchandise trade deficit.

The record level of 9.8 billion square yards of imports in 1984 is equivalent to 1 million American jobs. Each month more plants are closing or cutting back and more jobs are lost. If employed, these Americans would be contributing to the Nation's economic growth and helping to reduce the budget deficit.

When the agreement with Israel was first proposed, because of their import-sensitive nature, a request was made for textiles and apparel to be exempt as exists under the Caribbean Basin Initiative and the General System of Preferences. However, the administration and Israel insisted on no exclusions. To calm the fears of Members of Congress, U.S. Trade Negotiator William Brock wrote a letter on September 20, 1984, to Senator Mitchell. In this letter he stated:

> Textiles, apparel, footwear, and other leather related products are among the most import sensitive American industries. This sensitivity, will be taken into account in the negotiations with the Government of Israel. It is the intention of the administration to phase in U.S. duty reductions on such sensitive products over a multi-year period and more gradually than in regard to other products.

We believe this statement is pretty clear. In addition, there were some verbal comments made by Ambassador Brock that the intention was over a 10-year period. These comments were made to members of the committee, Congressmen Ed Jenkins and Carroll Campbell. We now understand that it is the intention of the administration to grant Israel Stage One, immediate duty free on 48 percent of their textile and apparel exports to the United States.

This is completely contrary to the written and oral comments. Although we think there should be no duty reductions, to be consistent with Ambassador Brock's commitment to the Congress, any tariff reductions on textiles and apparel, because they are import sensitive, should be staged over a 10-year period.

I would have to say that we are astounded at some of the proposed immediate tariff cuts. They are on cotton bedsheets, pillow cases, bathing suits, and other areas that are already impacted by imports heavily.

In addition, we see this agreement as flawed. Israel has a trade agreement with the European Community and under that trade agreement they are governed by the European Community's rules of origin. Under those rules of origin textile products must undergo a double transformation. By that, if we as an American textile mill ship cloth to Israel and it was manufactured into garments, those garments could not be shipped into the European Community as Israeli garments, because it would not confer origin status, and we really think this is unfair.

Although exports subsidies are illegal in international trade, Israel grants such subsidies. Because they do, they are not eligible to become a signatory of the GATT Subsidies Code. Under our trade laws if a country is not a signatory of the GATT Subsidies Code, and if they are charged in a countervailing duty action with granting illegal subsidies, it is not necessary to prove injury or threat thereof. However, Ambassador Brock is now proposing that Israel receive the benefit of an injury test before a countervailing duty could be imposed by the United States, and we believe this is contrary to Congress' intent in writing the trade laws.

With further reference to Israel's export subsidies, Ambassador Brock in his letter to Senate Mitchell stated:

> Commitment to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by the administration as a precondition to the conclusion of a Free Trade Area Agreement.

Notwithstanding the above statement, Ambassador Brock is now proposing that about two-thirds of the Israel export subsidies would be phased out in 3 years and others in 6 years. We think this is unacceptable. Illegal export subsidies should be eliminated immediately.

Finally, we are concerned that the proposed legislative language may be inconsistent with the proposed agreement with respect to Government procurement. The Berry amendment provides "Buy American" products should be procured here in the United States unless there is an abnormal price differential; and under the proposed agreement, as we read it, in section 6 it authorizes the President to waive the application of any law regarding Government procurement that would result in less favorable treatment for Israel than for U.S. producers. We believe this exceeds the agreement's language.

I work for a privately owned company. In the period from 1981 through 1983 we spent over $160 million in modernizing and refurbishing our plants to protect our share of the market and the jobs of our employees. I would have to tell you, much to our discomfort, within the past several weeks we were forced to terminate 400 employees because of the severe impact of imports. Most of them worked in plants equipped with state-of-the-art machinery. I am talking about air jet looms. It is difficult for management to explain to employees who are being terminated why our Government cannot control the tremendous surge of imports.

If textile and apparel imports are permitted to enter immediately duty-free from Israel, it will add to our industry's burden. Because of the enormous pressure from imports, any further erosion in our market will be directly translated into the loss of additional jobs of American citizens.

The American Fiber, Textile & Apparel Coalition requests the Committee on Ways and Means to vigorously urge the administration to modify the proposed agreement by:

One, staging any tariff reductions on textiles and apparel over a 10-year period.

Two, having Israel immediately eliminate export subsidies.

Three, only grant Israel the benefit of the injury test in a countervailing duty action after they become a signatory of the GATT Subsidies Code.

Four, establish a reciprocal arrangement so that the textile products from the EEC into Israel face the same requirements before becoming a product of Israel and gaining duty-free entry into the United States as our shipments to Israel face before entering the European Economic Community.

Thank you.

Mr. GIBBONS. Thank you, sir.

[The prepared statement follows:]

STATEMENT OF ROBERT F. EISEN, ON BEHALF OF AMERICAN FIBER, TEXTILE, APPAREL COALITION

This statement is presented by Robert F. Eisen. I reside in Garden City, New York. I am Chairman of the Marketing Division of Greenwood Mills, Inc., a textile manufacturer employing over 6,000 workers in its plants in South Carolina. My statement is on behalf of the American Fiber, Textile and Apparel Coalition, a group of associations and unions representing most of the U.S. complex of the fiber, textile and apparel industry. Those organizations are listed at the last page of my statement. I would ask that this list be made part of the record.

The U.S. fiber, textile and apparel industries have been severely impacted by the sharp increase in imports in 1984 which reached an all-time record level of 9.8 billion square yard equivalent, up 32% from the 1983 previous record level of 7.4 billion square yard equivalent. The 1984 textile and apparel trade deficit also hit a record level of $16 billion, a 53% increase over 1983's previous record of $10.5 billion. The 1984 textile and apparel trade deficit is 13 percent of the nation's total merchandise trade deficit for the year.

The record level of 9.8 billion square yards of imports in 1984 is equivalent to one million American jobs. Each month more plants are closing or cutting back and more jobs are lost. If employed, these Americans would be contributing to the nation's economic growth and helping to reduce the budget deficit.

When the agreement with Israel was first proposed, because of their import sensitive nature, a request was made for textiles and apparel to be exempt as exists under the Caribbean Basin Initiative and the Generalized System of Preferences. Because the Administration and Israel insisted on no exclusions, to calm the fears of members of Congress, U.S. Trade Negotiator William Brock in his letter of September 20, 1984 to Senator Mitchell stated:

"The Administration asked the International Trade Commission for economic advice on the effect of entering into such an agreement. Textiles, apparel, footwear and other leather related products are among the most import sensitive American industries. This sensitivity will be taken into account in the negotiations with the Government of Israel. It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products over a multi-year period and more gradually than in regard to other products."

Verbally this commitment was clarified at one point as meaning over a ten year period.

Recently, however, Ambassador Brock's office issued a statement which indicates that it is the intention of our government to grant Israel immediate duty free treatment on half of their textile and apparel exports to the United States. This is completely contrary to the written statement made to Senator Mitchell and verbally to members of this Committee, Congressmen Ed Jenkins and Carroll Campbell. Although we think there should be no duty reductions, to be consistent with Ambassador Brock's commitment to the Congress, any tariff reductions on textiles and apparel, because they are import sensitive, should be staged over a ten year period. This recognizes the import sensitivity of certain textile and apparel products and is consistent with exemptions from duty cuts granted during the Multilateral Trade Negotiations.

Moreover, we are astounded at some of the proposed tariff cuts in the U.S. offer. For example, the U.S. has proposed immediate duty free treatment on bedsheets and pillowcases, bathing suits, underwear, and hosiery. These products are already impacted by imports.

The proposed agreement is also flawed in that the U.S. textile/apparel industry is disadvantaged with respect to rules of origin. In the EEC's free trade agreement with Israel, special rules of origin have been established which make it difficult, if not impossible, for U.S. companies to participate in that trade. The EEC requires textile products to undergo a "double transformation" in Israel before those goods can enter the EEC duty-free.

This means that the U.S. industry cannot ship fabric to Israel to be made up into garments and gain entry to the EEC as a product of Israel. We are required to ship yarns instead which must be woven, then cut and sewn. This is a major non-tariff barrier to our exports, yet there is no reciprocal provision in the U.S. agreement with Israel.

Although export subsidies are illegal in international trade, Israel grants such subsidies. Because they do, they are not eligible to become a signatory of the GATT subsidies code. Under our trade laws if a country is not a signatory of the GATT subsidies code, and if they are charged in a countervailing duty action with granting illegal subsidies, it is *not* necessary to prove injury or threat thereof. However, Ambassador Brock is now proposing that Israel receive the benefit of an injury test before a countervailing duty could be imposed by the United States. We believe this is contrary to Congress' intent in writing the trade law.

With further reference to Israel's export subsidies, Ambassador Brock in his letter to Senator Mitchell stated:

"Commitment to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by this Administration as a precondition to the conclusion of a Free Trade Area Agreement."

Notwithstanding the above statement Ambassador Brock in the proposed agreement permits Israel to maintain certain export subsidies for six years. This is unacceptable. Illegal export subsidies should be eliminated immediately.

Finally, we are concerned that the proposed legislative language may be inconsistent with the proposed agreement with respect to government procurement. The agreement provides for a waiver of "Buy American" restriction for goods covered by the GATT Government Procurement Code. Textiles and apparel are not subject to these code provisions because of a U.S. statute which limits participation by non-U.S. suppliers. However, the proposed legislation in Section 6 authorizes the President to waive the application of any law regarding government procurement that would result in less favorable treatment for Israel than for U.S. producers. We believe that this exceeds the agreement's language.

Greenwood Mills, Inc. is a privately owned company. In the period from 1981 through 1983 we spent over $160 million in modernizing and refurbishing our plants to protect our share of market and the jobs of our employees. Much to our discomfort within the past several weeks we were forced to terminate 400 employees because of the severe impact of imports. Most of them worked in plants equipped with "state of the art" machinery. It is difficult for management to explain to employees who are being terminated why our government can not control the tremendous surge of imports. If textile and apparel imports are permitted to enter immediately duty free from Israel, it will add to our industry's burden. Because of the enormous pressure from imports, any further erosion in our market will be directly translated into the loss of additional jobs of American citizens.

The American Fabric, Textile, Apparel Coalition requests the Committee on Ways and Means to vigorously urge the Administration to modify the proposed agreement by:

(1) Staging any tariff reductions on textiles and apparel over a ten year period;

(2) Having Israel immediately eliminate export subsidies;

(3) Only grant Israel the benefit of the injury test in a countervailing duty action after they become a signatory of the GATT subsidies code; and

(4) Establishing a reciprocal arrangement so that textile products from the EEC into Israel face the same requirements before becoming a product of Israel and gaining duty free entry into the U.S. as our shipments to Israel face before entering the EEC.

MEMBERS OF AMERICAN FIBER/TEXTILE/APPAREL COALITION

Amalgamated Clothing & Textile Workers Union, American Apparel Manufacturers Association, American Textile Manufacturers Institute, American Yarn Spinners Association, Carpet and Rug Institute, Clothing Manufacturers Association of America, Industrial Fabrics Association International, International Ladies Garment Workers Union, Knitted Textile Association, Luggage and Leather Goods Manufacturers of America, Man-Made Fiber Producers Association, National Association of Hosiery Manufacturers, National Association of Uniform Manufacturers, National Cotton Council, National Knitwear Manufacturers Association, National Knitwear & Sportwear Association, National Wool Growers Association, Neckwear Association of America, Northern Textile Association, Textile Distributors Association, and Work Glove Manufacturers Association.

Mr. GIBBONS. Our next witness is from the American Textile Manufacturers Institute, Mr. Bremer.

STATEMENT OF CHARLES V. BREMER, MANAGER OF MARKET RESEARCH, WESTPOINT PEPPERELL, INC., ON BEHALF OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

Mr. BREMER. Thank you, Mr. Chairman, for the opportunity to speak before the committee this morning.

My name is Charles Bremer. I am manager of market research for WestPoint Pepperell, Inc., the Nation's oldest textile manufacturing firm and its third largest. We operate 40 manufacturing facilities in 8 States and employ 22,000 people. I appear today also on behalf of the American Textile Manufacturers Institute, the central trade association of the Nation's textile industry, of which WestPoint Pepperell is a member of many years standing.

As an important part of my position with WestPoint and in connection with my committee work within ATMI, I closely follow developments in international trade and U.S. Government policies affecting same to ascertain whether their effect on our business will be beneficial or detrimental. Lately there have not been too many beneficial developments, but there has been an overabundance of detrimental developments, not the least of which is the Free Trade Area Agreement with Israel which is the subject of this hearing.

Let it be understood that we are opposed to the agreement in toto, and so advised our Government a year ago. Now that these objections have apparently been brushed aside in the proposed agreement, we are now concerned with the specific details of certain tariff concessions granted Israel. I have reviewed the proposed schedule of tariff concessions and am dismayed by what I have seen. My comments today deal primarily with two of these proposed duty cuts. To be sure, there are literally scores of proposed cuts that will inflict terrible damage on our industry and on my employer, and they vary only in the degree of their egregiousness.

I wish to call to your attention today two of such. I refer to the proposal to grant Israel immediate duty-free entry of cotton bedsheets and pillowcases and to stage duty reductions on cotton towels over a 4-year period, resulting in zero duty on January 1, 1989. To grant these duty cuts to products that are pivotal to our livelihood is bad enough, but when it is understood that these items experienced import increases of 130 percent, in the case of sheets and pillowcases, and 68 percent, in the case of towels, during 1984, we are left breathless.

Let no one think that Israel is not fully capable and has every intention of reaping maximum benefit from this wholly unprecedented and insensibly generous offer. From a base of zero in 1982, imports of carded cotton sheets and cases from Israel skyrocketed to 205,000 units in 1983 and 1.175 million units in 1984. Israel is now our third largest supplier of these items and is just getting warmed up.

The proposal to reduce duties on imports of cotton towels from Israel to zero less than 4 years hence is no less threatening to the industry and my company. Employment in our towel division has shrunk from 4000 to 3000 during the last 5 years. During the same period of time imports of cotton pile towels has soared 138 percent from 40 million in 1979 to 96 million in 1984. These two sets of data are related.

While I have tried to point out the harmful effects of the duty cuts referred to in these remarks, I rather suspect that this committee will receive testimony alleging the benefits to be derived therefrom. The committee may hear that when these duties are removed the American consumer will benefit from lower prices. I will tell this committee and the Congress that when import duties on Israeli-made sheets, pillowcases, and towels are dropped to zero their retail selling price will not drop 1 cent.

There are other products of critical importance to this industry and of even greater importance to individual ATMI member firms for which immediate zero duty entry is proposed, this posing more than the mere threat of widespread market disruption. Such disruption and the resultant economic harm to domestic textile firms are more or less mandated by the proposal to immediately eliminate duties on man-made fiber blankets, woven V-belts, wool floor coverings, typewriter and machine ribbons and polyester/wool woven fabrics, to name but a few.

To further illustrate the sense of outrage we feel in reviewing the proposed terms of this agreement, I wish to call your attention to one product for which the full 10-year staging of duty elimination is proposed: non-pile jacquard woven cotton towels. Imports of this product are but a tiny fraction of total towel imports and its role in the marketplace is so insignificant that we do not even specifically provide for it in our domestic production schedules. But it gets full 10-year stating. The cynicism implicit in this hollow gesture is insulting.

The most immediate and lasting effect of the schedule of duty reductions currently proposed in this agreement is irreparable damage to the American textile industry and my company. Recognizing that this agreement has gathered widespread and influential support within several agencies and branches of our Government, we must appeal to Congress to exercise the powers granted it in article I, section 8 of the Constitution and ask that the elimination of U.S. import duties on Israeli textile and apparel products be staged over the full 10-year period permissible under the agreement. To stage them over a shorter period of time and, particularly, to grant any immediate eliminations of duty is to precipitate the immediate loss of jobs and revenue in our industry. I can only trust that such is not the intent or wish of Congress.

Thank you for your attention.

Mr. GIBBONS. Thank you, Mr. Bremer, for coming and giving us your views.

[The prepared statement follows:]

STATEMENT OF CHARLES V. BREMER, ON BEHALF OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE & WESTPOINT PEPPERELL, INC.

My name is Charles Bremer. I am Manager of Market Research for WestPoint Pepperell, Inc., the nations's oldest textile manufacturing firm and its third largest. We operate 40 manufacturing facilities in 8 states and employ 22,000 people. I appear today also on behalf of the American Textile Manufacturers Institute (ATMI), the central trade association of the nation's textile industry, of which WestPoint Pepperell is a member of many years standing.

As an important part of my position with WestPoint Pepperell and in connection with my committee work within ATMI, I closely follow developments in international trade and U.S. Government policies affecting same to ascertain whether their effect on our business will be beneficial or detrimental. Lately there haven't been too many beneficial developments, but there has been an overabundance of detrimental developments, not the least of which is the Free Trade Area Agreement with Israel which is the subject of this hearing.

Let it be understood that we are opposed to the Agreement *in toto*, a fact to which I testified before the International Trade Commission in April, 1984. Now that those objections and, indeed, the objections of our entire industry have apparently been brushed aside in the proposed agreement, we are now concerned with the specific details of certain tariff concessions granted Israel. I have reviewed the proposed schedule of tariff concessions and am dismayed by what I have seen. My comments today deal primarily with two of these proposed duty cuts. To be sure, there are literally scores of proposed cuts that will inflict terrible damage on our industry and my employer and they vary only in the degree of their egregiousness. The two I call to your attention today are merely, from our perspective, two of the worst among many such. I refer to the proposals to grant Israel immediate duty free entry of non-ornamented cotton bedsheets and pillowcases [1] and to stage duty reductions on cotton towels (except dish towels) [2] over a four year period, resulting in zero duty on January 1, 1989. To grant these duty cuts to products that are pivotal to our livelihood is bad enough, but when it is understood that these items experienced import increases of 130% (sheets and pillowcases) and 68% (towels) during 1984, we are left breathless. But not speechless.

WestPoint Pepperell's Iselin weaving mill in New Braunfels, Texas was recently converted to the production of cotton bedsheets and pillowcases. For many years this mill wove yarn dyed shirting and blouse fabrics and was one of the finest mills of its type in America: modern, clean, efficient, productive. We like to think it was the finest yarn dyed fabric mill in America, but no matter, because imports of yarn dyed shirts, blouses and fabric, which increased 29% during the last year to an annual rate of 216 million square yards, so disrupted the domestic market for yarn dyed fabric that the mill no longer had a viable customer base.

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[1] TSUSA Item Nos. 363.3010, 363.3020, 363.3030, and 363.3040.

[2] TSUSA Item Nos. 366.2160, 366.2180, 366.3460, and 366.3480.

Rather than close the mill, terminate the hundreds of jobs it provided and take a multi-million dollar write-off of assets, we searched throughout our company's broad product line to find one that was not already suffering from severe import impact and had at least a reasonable chance of providing employment and revenue. The only one we could find was cotton bedsheets and pillowcases. Unfortunately, because the dyeing of yarn and the sophisticated yarn handling processes associated with making yarn dyed shirtings are not required to make fabric for bedsheets and pillowcases, 100 jobs at the mill were lost, but we managed to preserve 278. The changeover was begun last November. Now, four months later, these 278 employees, the majority of whom are Mexican-Americans (all of them American citizens) with no other job prospects in the immediate area, are threatened with the loss of their jobs because our Government intends to grant Israel duty-free entry of cotton sheets and pillowcases.

Let no one think that Israel is not fully capable and has every intention of reaping maximum benefit from this wholly unprecedented and insensibly generous offer. From a base of zero in 1982, imports of carded cotton sheets and cases from Israel skyrocketed to 205 thousand units in 1983 and 1.175 million units in 1984. Israel is now our third largest supplier of these items and is just getting warmed up.

The proposal to reduce duties on imports of cotton towels from Israel to zero less than four years hence is no less threatening to the industry and my company. Employment in our towel division has shrunk from 4,000 to 3,000 during the last five years. During the same period of time imports of cotton pile towels have soared 138% from 40½ million in 1979 to 96½ million in 1984. These two sets of data are related.

While I have tried to point out the harmful effects of the duty cuts referred to in these remarks, I rather suspect that this Committee will receive testimony alleging the benefits to be derived therefrom. The Committee may hear that when these duties are removed, the American consumer will benefit from lower prices. I will tell this Committee and the Congress that when import duties on Israeli-made sheets, pillowcases and towels are dropped to zero, their retail selling price will not drop one cent.

There are other products of critical importance to this industry and of even greater importance to individual ATMI member firms for which immediate zero duty entry is proposed, this posing more than the mere threat of widespread market disruption. Such disruption and the resultant economic harm to domestic textile firms are more or less mandated by the proposals to immediately eliminate duties on man-made fiber blankets, woven V-belts, wool floor coverings, typewriter and machine ribbons and polyester/wool woven fabrics, to name but a few.

To further illustrate the sense of outrage we feel in reviewing the proposed terms of this Agreement, I wish to call your attention to one product for which the full ten year staging of duty elimination is proposed: non-pile jacquard woven cotton towels [3]. Imports of this product are but a tiny fraction of total towel imports and its role in the marketplace is so insignificant that we don't even specifically provide for it in our domestic production schedules. But it gets full ten year staging. The cynicism implicit in this hollow gesture is insulting.

The most immediate and lasting effect of the schedule of duty reductions currently proposed in this Agreement is irreparable damage to the American textile industry and my company. Of all the slings and arrows of outrageous fortune that we have lately suffered, this is one of the worst. Recognizing that this FTA arrangement has gathered widespread and influential support within several agencies and branches of our government, we must appeal to Congress to exercise the powers granted it is Article I, Section 8 of the Constitution, that is, "to regulate commerce with foreign nations", and ask that the elimination of U.S. import duties on Israeli textile and apparel products be staged over the full ten year period permissible under the Agreement. To stage them over a shorter period of time and, particularly, to grant any immediate eliminations of duty is to precipitate the immediate loss of jobs and revenue in our industry. I can only trust such is not the intent or wish of Congress.

Thank you for your attention.

Mr. GIBBONS. Our next witness is an old friend and an old acquaintance of this committee. I should not say old, but an old acquaintance and friend of longstanding, Mr. Stanley Nehmer.

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[3] TSUSA 366,2720.

STATEMENT OF STANLEY NEHMER, CONSULTANT, LEATHER PRODUCTS COALITION

Mr. NEHMER. Thank you, Mr. Chairman.

For the record, my name is Stanley Nehmer, and I am here on behalf of the members of the Leather Products Coalition. The organization members are stated in my testimony.

I do not plan to read my testimony. I would like to speak from it.

Mr. GIBBONS. All right. We will put your entire statement in the record along with those of all of the other witnesses.

Mr. NEHMER. Thank you, Mr. Chairman.

Having heard the Government witnesses this morning and the first panel from the American Israel Public Affairs Committee and the other organizations prior to this panel, I sort of got the feeling that I must have been reading a different agreement than the one that apparently is before us. From comments that I have heard, some members of this committee think that this agreement is the greatest thing since apple pie.

I have to say to you that in the judgment of the textile and apparel industry, which you have already heard speak, and in the judgment of the footwear and other leather products industry, this could be an absolute disaster for these industries, and I would like to tell you why insofar as the Leather Products Coalition is concerned.

First of all, when it was not possible to exclude textiles, apparel, footwear and other leather products from the duty-free provisions, we were under the clear assumption from a letter written to Senator Mitchell by Ambassador Brock, from the statements which were made to you, Mr. Chairman, and in which you engaged in a colloquy with Mr. Thomas on the floor of the House on October 3, 1984, that all of these products that we were talking about, which we are representing today, were import sensitive and their duties would be phased out over the longest possible period.

Sure, there was nothing in a formal, legal commitment or document from Ambassador Brock or from the President of the United States which would say that, but the whole tone and tenor of what was said to these import sensitive industries was that there would be this multiyear phaseout.

Now, I do not consider the fact that all of these leather products are going to be going to zero—78 percent of them will go to zero on the day the agreement enters into force—to be consistent with that commitment. I do not consider the fact that leather wearing apparel is going to go to zero on the day the agreement enters into force to be consistent when leather wearing apparel from Israel was a key concern in an escape clause case only a few years ago where the ITC unanimously found injury from imports. And I do not consider that the commitment has been met in the case of leather handbags, the only bright spot in an industry where 85 percent of handbags are imported, when leather handbags from Israel will go to zero immediately. Nor do I consider the commitment to have been met in the case of nonrubber footwear where a new escape clause case is now in process as a result of the Senate Finance Committee asking the ITC to reopen it, and yet at the same time to have footwear go to zero on duty in 3½ years with the first cut being 20 percent, when this enters into force, because footwear was exempt from the Tokyo round cuts since it was then the subject of import relief.

No. This administration has not lived up to its commitment to our industry nor to this committee nor to Congress.

Now, let us talk about the subsidies code. The second problem we have is Israel being allowed to maintain some of its subsidies for 6 years. That is the longest period of time that any country has been allowed to maintain any export subsidy on shipments to the United States pursuant to the Trade Agreements Act of 1979. The overall implementation of U.S. participation in the subsidies code has been, in the minds of some of us, an absolute disgrace.

In the case of Israel we find not a 2- year or a 3-year phase-in, but a 6 year phase-in, allowing Israel to maintain export subsidies for 6 years. Meanwhile any American industry that brings a countervailing duty case, Mr. Chairman, has to go through the time and expense of having an injury test. We think this is wrong.

On the Government procurement code, the concerns that were expressed by Mr. Eisen earlier relate very specifically to the language of the draft implementing legislation that was submitted to you by the administration, and what Mr. Gingrich said to you this morning is inconsistent with the language which the USTR has submitted to you for your consideration.

That language in section 6 of the draft implementing legislation says that with respect to products originating in Israel, the President may waive in whole or in part the application of any law, regulation, or practice regarding Government procurement that would result in treatment less favorable than that accorded U.S. producers and suppliers of such products.

It does not say only those products under the Government procurement code; it says any law, any regulation, any practice may be waived by the President. If you enact that, believe me, the Berry amendment will go out the window to the detriment of all of our industries which we are representing here today.

We are also concerned about possible loopholes that have been built into this agreement with Israel involving infant industries, involving balance-of-payments practices and problems. The language is very vague and we are concerned that these provisions are loopholes.

To conclude, let me say the issue today is about Israel, but no one in this Congress should believe that free trade agreements will stop here. The pattern for future such agreements will be set in this one. If Congress allows this agreement to be concluded without rectifying the problems which we have outlined to you this morning, only greater gloom and more doom will be in store for import-sensitive American industries and their workers.

And we ask you, the Leather Products Coalition joining in with the American Fiber, Textile, Apparel Coalition, sincerely to give full consideration to our concerns. This agreement has not been finalized. The administration can bring about some changes in it, and we would urge you very sincerely not only in the case for the Israel agreement, but for the pattern for the future; please, let us get some changes to rectify these problems. Thank you very much for your indulgence.

[The prepared statement follows:]

STATEMENT OF STANLEY NEHMER ON BEHALF OF LEATHER PRODUCTS COALITION

SUMMARY

The Leather Products Coalition,[1] a group of trade associations and labor unions in leather-related industries, is seriously concerned regarding several aspects of the proposed U.S.-Israel Free Trade Area Agreement:

(1) the inconsistency between the agreement and the commitment made on behalf of the Administration by the U.S. Trade Representative to Congress regarding the phasing of tariff reductions on footwear and other leather-related products as well as on textiles and apparel;

(2) the excessively long schedule for elimination of Israeli subsidies;

(3) apparent loopholes in the agreement which will allow Israel to reimpose duties, and even quotas, under certain circumstances; and

(4) Significant modification in government procurement practices which could result from the agreement.

Given these very serious concerns, we urge the U.S. negotiators to address these issues and remedy the problems prior to reaching a final agreement with Israel.

The products of concern to these organizations include nonrubber footwear, luggage, handbags, personal leather goods, work gloves and leather wearing apparel.

INTRODUCTION

This statement is presented by Stanley Nehmer on behalf of the following members of the Leather Products Coalition, a group of trade associations and labor unions in leather-related industries.

Amalgamated Clothing & Textile Workers Union, AFL-CIO.
Footwear Industries of America, Inc.
International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO.
Luggage and Leather Goods Manufacturers of America, Inc.
Work Glove Manufacturers Association.

The products of concern to these organizations include nonrubber footwear, luggage, handbags, personal leather goods, work gloves and leather wearing apparel.[2]

The Leather Products Coalition was on record during the 98th Congress for its strong opposition to the free-trade arrangement with Israel because of its potential harmful impact on the leather-related products industries. The Coalition recommended that the products listed above be excluded from duty-free treatment as the 98th Congress saw fit to do in legislation on the Caribbean Basin Initiative and on the renewal of the Generalized System of Preferences. These import-sensitive industries are already staggering under unprecedented levels of imports, which have caused lost domestic production, market share and jobs.

Our purpose in appearing at this hearing is to voice our serious concern regarding several aspects of the proposed U.S.-Israel Free Trade Area Agreement: (1) the inconsistency between the agreement and the commitment made on behalf of the Administration by the U.S. Trade Representative to Congress regarding the phasing of tariff reductions on footwear and other leather-related products as well as on textiles and apparel; (2) the excessively long schedule for elimination of Israeli subsidies; (3) apparent loopholes in the agreement which will allow Israel to reimpose duties, and even quotas, under certain circumstances; and (4) significant modification in government procurement practices which could result from the agreement. Given these very serious concerns, we urge the U.S. negotiators to address these issues and remedy the problems prior to reaching a final agreement with Israel.

THE U.S. TRADE REPRESENTATIVE'S COMMITMENT TO SENATOR MITCHELL

When the Israel free-trade area legislation was being considered by Congress, these leather-related industries, because of their high import-sensitivity, sought exclusion from duty-free treatment as exists under the Caribbean Basin Initiative and the Generalized System of Preferences. Both the Administration and the Israelis were adamant about not granting any exclusions under the free trade arrangement; however, Congressional concern about certain import-sensitive industries was very strong. Sentiment was so strong, in fact, that various members of both the House and Senate sought assurances from the U.S. Trade Representative that duty cuts on import-sensitive textile, apparel and leather-related products would be phased in over a multi-year period. Indeed, during Senate consideration of the U.S.-Israel free-trade area, Senator George Mitchell was prepared to offer an amendment which provided for a multi-year phase-in for U.S. duty cuts on these products so long as Israel agreed to terminate its subsidy programs on these products. If Israel failed to terminate its subsidies, duties on these products would snap back to regular MFN rates. Senator Mitchell agreed not to offer this amendment based on written assurances on September 20, 1984 from Ambassador Brock (copy attached) that—

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[1] Amalgamated Clothing & Textile Workers Union, AFL-CIO.
Footwear Industries of America, Inc.
International Leather Goods, Plastics & Novelty Workers' Union, AFL-CIO.
Luggage and Leather Goods Manufacturers of America, Inc.
Work Glove Manufacturers Association.

[2] We understand that the Footwear Division of the Rubber Manufacturers Association is submitting a separate statement to the Committee with respect to rubber footwear. We have been authorized, however, to state that they associate themselves with this statement.

"It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products [meaning textiles, apparel, footwear and other leather-related products] over a multi-year period and more gradually than in regard to other products."

On the floor of the House on October 3, 1984, Mr. Thomas of California engaged in a colloquy with Mr. Gibbons, the Chairman of the Ways and Means Subcommittee on Trade, as follows:

Mr. THOMAS of California. I have also heard the Ambassador has indicated how he will identify import-sensitive products and that to do so he will rely on a recent International Trade Commission report to identify import-sensitive items.

Further, I believe the Ambassador told the Committee on Ways and Means last week that he will consider information other than that supplied by the International Trade Commission in defining import-sensitive products. Is my understanding correct?

Mr. GIBBONS. Mr. Chairman, if the gentleman will yield.

Mr. THOMAS of California. Certainly.

Mr. GIBBONS. The gentleman's understanding is correct.

Mr. THOMAS of California. I thank the gentleman very much.

Finally, Mr. Chairman, I understand that in some cases outside the import-sensitive category, the Ambassador plans to phase in duty reductions over a number of years, depending upon negotiations. And that the bill, although silent, does not automatically result in elimination of U.S. duties as a result.

Mr. GIBBONS. That is correct. That is my understanding as well.

On the basis of these assurances, many members of this body believed that the Administration would abide by such a commitment when negotiating duty reductions on these import-sensitive products.

That this commitment has not been lived up to is self-evident. The draft agreement provides that the duties on 78 percent of leather-related products (based on 1982 trade data) will become duty-free immediately upon the entry into force of the agreement. This is not over a "multi-year period." The remainig 22 percent will be phased into duty-free treatment in three and a half years—far too quickly for these import-sensitive products.

At least two leather products—leather handbags (TSUS 706.06 and 706.09) and leather wearing apparel (TSUS 791.76)—will have their duties cut to zero immediately, as will a number of luggage, flat goods, and other handbag articles. Unfortunately, the segment of the U.S. handbag industry producing leather handbags is the only relative bright spot for this industry. This is an industry overrun by imports with an import penetration rate of 85 percent. What justification is there for this item to have its duty cut to zero immediately when it will directly and nagatively impact the only remaining segment of the U.S. industry which has much hope for survival?

In the case of leather wearing apparel, there is a special irony. Among all the leather-related products imported from Israel, leather wearing apparel ranks number one in terms of volume. In 1980, leather wearing apparel was the subject of a Section 201 "escape clause" case before the International Trade Commission in which the ITC found unanimously that imports were causing serious harm to this industry. Imports of leather wearing apparel from Israel were large enough to be a factor in the case. Israel has been a strong international competitor in leather wearing apparel and is considered by some as a "world-leader" in the leatherwear field. Currently imports of leather wearing apparel have about two-thirds of our market, and immediate zero duty treatment on imports from Israel can only result in more imports and further loss of market share for U.S. producers and jobs lost to the workers in this industry.

The case of nonrubber footwear demonstrates particular insensitivity. This is an industry in such poor shape that the Senate Finance Committee recently asked the ITC to reopen the industry's Section 201 "escape clause" case. More than two-thirds of the footwear sold in the U.S. market today is imported. More than 13,000 jobs were lost to imports in this industry and 89 factories closed their doors in 1984 alone—one every four days. Yet all footwear duties will be phased out by 1989, much sooner than the ten-year phase out for some other import-sensitive products. Imports of footwear from Israel increased by 86 percent in dollar terms between 1982 and 1984.

Furthermore, even those articles subject to four year (really three and a half years) phase-out of duties will have an initial duty cut of either 20 percent or a reduction to the final staged cut negotiated in the Tokyo Round of Multilateral Trade Negotiations. Since nonrubber footwear was exempted from Tokyo Round cuts, it will face an immediate 20 percent cut upon the agreement entering into force. Here again, an immediate 20 percent cut for footwear is a sharper cut in duties than for many products whose duty cuts will merely be accelerated immediately to the 1987 MTN-negotiated tariff level. In many instances, the initial percentage on these other products will be far less than the immediate 20 percent cut in footwear tariffs. The very reason that nonrubber footwear was exempt from Tokyo Round MTN tariff cuts was because the industry was then under import relief. Now the industry will undergo a larger tariff cut than for many other industries at a time when it is least able to sustain such cuts and while its Section 201 "escape clause" case is pending before the ITC and the Administration.

Among the other leather-related products subject to a phase-out of duties by 1989 are most luggage and flat goods items. Notably, U.S. imports of luggage from Israel increased almost one-hundred fold between 1982 and 1984, with virtually all of the trade occurring in items currently subject to a 20 percent duty. This duty will be cut immediately to 16 percent and then phased to zero by 1989.

The Leather Products Coalition requests that this Committee urge the U.S. Trade Representative to make good on the commitment with regard to the duty treatment of these import-sensitive leather products.

SUBSIDIZATION OF ISRAELI PRODUCTS

The proposed U.S.-Israel free-trade area agreement allows Israel to maintain certain export subsidies for six years. This is the longest period of time allowed by the U.S. in any negotiations with any country under the countervailing duty provisions of the 1979 Trade Agreements Act. In the meantime Israel will receive the benefit of an injury test before any countervailing duty can be imposed by the United States. This, too, represents a failure to live up to the understanding of this body and of American industry last fall when legislation authorizing the negotiation of a free trade area agreement with Israel was being considered by Congress.

The Chairman of the Ways and Means Subcommittee on Trade, Mr. Gibbons, said on the floor of the House on October 3, 1984:

"I share these concerns about subsidized and dumped exports to our market. But this agreement does not weaken existing rights under our antidumping and countervailing duty laws. In addition, the Committee on Ways and Means has received assurances from the U.S Trade Representative that he will seek an Israeli commitment to phase out its subsidies as a precondition for entering into an agreement. This would increase—not diminish—our firms' protection against subsidized trade."

Clearly, American "firms' protection against subsidized trade" is diminished, not increased, when Israel is allowed six years to maintain export subsidies while most U.S. import duties have gone to zero.

The intention of the U.S. Government in negotiating elimination of Israeli subsidies is correct; however, it has clearly not gone far enough. To grant Israel the benefit of an injury test in any countervailing duty case brought against Israeli exports while, at the same time, allowing Israel to maintain subsidies is simply unfair to any U.S. industry. And for those industries which face immediate duty-free treatment on their producers or a phase down of the duties over four years while this subsidization is allowed to continue for up to six years, the situation is particularly untenable, to say the least.

Israel, despite being a member of GATT, has never subscribed to the GATT Subsidies Code, until now, to put itself under the international rule of law with respect to its all-pervasive subsidies regime. Other advanced developing countries have signed the Subsidies Code and are now granted an injury test with commitments to phase out subsidies. Yet Israel will benefit from an injury test during an excessively long period of time before its subsidies, illegal under U.S. law, are eliminated completely.

And, U.S. industry, which cannot compete with foreign government subsidies no matter how competitive it may be under free market conditions, will be forced to go through the time and expense of an injury proceeding while the U.S. Government has actually agreed to allow these illegal subsidies to continue for a period of six years.

THE AGREEMENT CONTAINS CONVENIENT LOOPHOLES WHICH WILL ALLOW ISRAEL TO REIMPOSE TARIFFS ON U.S. PRODUCTS, AND EVEN QUOTAS

Another troublesome aspect of the proposed U.S.-Israel free-trade area agreement relates to what we believe are convenient loopholes which will allow Israel to reimpose tariffs, and even quotas, on U.S. products despite the agree-upon zero duties.

Under the agreement, Israel may claim it has a balance-of-payments problem which forces it to reimpose duties on U.S. imports. Israel may also claim it needs to protect "infant" industries through the reimposition of tariffs, or even quotas. Both of these clauses are potential loopholes in the agreement. Should Israel exercise its right to reimpose tariffs or quotas, the U.S.-Israel free-trade area agreement could become no more than a one-way duty-free arrangement: U.S. imports from Israel will be duty-free while U.S. exports to Israel will continue to be subject to duties. Should this occur, it is difficult to see how this agreement will be beneficial to the United States.

Another curious feature of this loophole with respect to the protection of "infant" industries relates to the types of industries which may be considered "infant." By protecting its so-called infant industries, Israel can build up the very industries which may export to the U.S. market to the detriment of U.S. import-sensitive industries.

The U.S.-Israel free-trade area agreement requires the United States to agree to these Israeli protective actions before tariffs are reimposed. However, should the United States disagree, we must proceed through a dispute settlements process, which is lengthy and uncertain in outcome. The ability to resolve this issue does not ease our minds concerning these loopholes.

SERIOUS MODIFICATION OF U.S. GOVERNMENT PROCUREMENT PRACTICES COULD RESULT FROM THE AGREEMENT

We are also seriously troubled by the provision (Section 6) of the draft Implementing Legislation which would allow the President to waive, with regard to Israel, any government procurement law, regulation or practice.

There has been on the statute books for over 30 years the so-called Berry Amendment which restricts Defense Department procurement of textiles, apparel, footwear, and most leather products to U.S. sources. Our fear that this statute will be set aside for Israel is real. Israeli government procurement officials are telling sources in this country that this will occur. If so, this would add to the terribly negative impact on those American industries and their workers that this agreement will have.

Zero duty treatment for imports from Israel, the maintenance of export subsidies by that country for six years, and completely open U.S. government procurement for Israel—all add up to major problems for some of our most import-sensitive, heavily import-impacted American industries and their workers.

THE U.S. LEATHER-RELATED PRODUCTS INDUSTRIES REMAIN IMPORT-INJURED

No one seriously questions that the U.S. leather-related industries are import-sensitive and import-injured. Statutory exemptions from duty-free treatment under the Generalized System of Preferences and the Caribbean Basin Initiative have been granted for footwear, luggage, handbags, personal leather goods, leather wearing apparel, and work gloves.

The nonrubber footwear industry has also received two unanimous affirmative findings by the International Trade Commission of serious injury from imports under the "escape clause" provisions of the Trade Act of 1974, and the Senate Finance Committee has requested the ITC to begin a new investigation on nonrubber footwear. This investigation is in process. Leather wearing apparel also received a unanimous affirmative injury determination from the ITC pursuant to its "escape clause" investigation in 1980. Imports from Israel were large enough to be an issue in that investigation.

Five of the six leather-related industries have received technical assistance grants from the U.S. Department of Commerce designed to aid import-impacted industries.

Firms and workers in all of the leather-related industries have received adjustment assistance.

In the past two years alone, some 18,000 jobs were lost in the leather products industries, and the 1984 unemployment rate in these industries was a staggering 14.6 percent, about double the national average. Import penetration in these industries continues to grow, with 1984 imports reaching record levels in each of the sectors. Table 1 attached to this statement provides selected economic indicators for these industries and shows the relentless hammering of these industries from imports. The latest import penetration rates are:

	Percent
Nonrubber footwear	71
Personal leather goods	35
Luggage	56
Leather wearing apparel	67
Work gloves (leather)	60
Handbags	85

These high levels of import penetration have been largely accomplished without benefit of preferential duty treatment for developing countries. Imports from Israel, which will begin receiving preferential duty treatment on some of these products as soon as the agreement enters into force after Congressional approval, will merely add to the overwhelmingf weight of the already large and growing volumes of imports of leather-related products.

CONCLUSION

The issue today is about Israel. But no one in the Congress should believe that free trade agreements will stop here. The pattern for future such agreements will be set in this one. If Congress allows this agreement to be concluded without rectifying the problems outlined in this statement, only greater gloom and more doom will be in store for import-sensitive American industries and their workers.

The Leather Products Coalition requests that the Ways and Means Committee give full consideration to the concerns we have raised and urge the Administration through Ambassador Brock to rectify these problems in the U.S.-Israel Free-Trade Area Agreement before the agreement is finally concluded.

[From the Congressional Record—Senate—Sept. 20, 1984]

THE U.S. TRADE REPRESENTATIVE,
Washington, September 20, 1984.

Hon. George J. Mitchell,
U.S. Senate, Washington, DC.

DEAR GEORGE: You have expressed concern about the effect of a United States-Israel Free-Trade Area upon the domestic industries producing textiles, apparel, footwear, and other leather related products. The Administration asked the International Trade Commission for economic advice on the effect of entering into such an agreement. Textiles, apparel, footwear, and other leather related products are among the most import sensitive American industries.

This sensitivity will be taken into account in the negotiations with the Government of Israel. It is the intention of the Administration to phase in U.S. duty reductions on such sensitive products over the multi-year period and more gradually than in regard to other products.

You have also expressed concern regarding the existence of export and domestic subsidy programs in Israel, both as to their generally trade distortive effect and as they relate to the proposed United States-Israel Free-Trade Area. I want to assure you that the Administration shares this concern.

As a result, commitment by Israel to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by the Administration as a precondition to the conclusion of a Free-Trade Area agreement between the United States and Israel. In addition, it is our expectation that such a commitment from Israel will serve as a basis for their signing the subsidies code, in accordance with the previously stated intention of the Government of Israel to sign the code.

We also continue to be seriously concerned about the impact of domestic subsidy programs on U.S. industries and workers. I want to assure you that these programs are subject to U.S. countervailing duty law and the Administration will vigorously enforce this law with respect to any product of Israel benefitting from such domestic subsidy programs.

Very truly yours,

WILLIAM E. BROCK.

Table 1

SELECTED ECONOMIC INDICATORS OF THE HEALTH OF THE LEATHER PRODUCTS (ISAC 8) INDUSTRIES

	Nonrubber Footwear (SIC 314)	Luggage (SIC 3161)	Personal Leather Goods (SIC 3172)	Handbags (SIC 3171)	Leather Apparel (SIC 2386)	Leather Work Gloves (SIC 3151)
Employment (number of employees)						
1967	230,600	21,000	32,600		5,100	6,300
1972	193,300	17,300	28,400		7,000	4,900
1977	156,900	17,300	33,100		6,700	5,500
1982	135,100	13,700	28,100		4,500	4,200
1983	127,400	12,400	27,000		3,800	3,400
1984 (P)	120,700	12,000	27,800		3,400	3,600
Production/ Shipments	(million prs.)	(million dollars)	(million dollars)	(million units)	(million dollars)	(thousand dz. prs.)
1967	600.0	294.8	164.7	97.0	N/A	N/A
1972	526.7	321.9	231.8	90.1	174.0	4,192
1977	418.4	585.0	369.0	55.8	211.0	3,710
1982	359.1	648.0	380.0	38.8	208.0	2,354
1983	344.3	707.0	396.0	N/A	211.0	2,200(E)
1984 (P)	302.0(E)	729.0	414.0	N/A	190.0	N/A
Imports	(million prs.)	(million dollars)	(million dollars)	(million dollars)	(million dollars)	(thousand dz. prs.)
1967	129.1	N/A	N/A	44.9	N/A	N/A
1972	296.7	41.0	18.3	86.9	91.8	1,253
1977	368.1	118.0	44.0	207.1	204.1	2,090
1982	479.5	334.8	87.5	409.6	252.0	3,114
1983	581.7	399.9	105.2	476.1	271.6	3,279
1984	725.7	549.2	133.6	576.6	381.3	4,883
Import Penetration* (percent)						
1967	18	N/A	N/A	29	N/A	N/A
1972	36	12	7	43	31	23
1977	47	18	11	63	50	37
1982	58	34	19	84	56	57
1983	63	50(E)*	35(E)*	85(E)	56	60
1984 (P)	71	56(E)*	35(E)*	85(E)	67	N/A

* For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, 1983 and 1984 import penetration has been estimated to reflect estimated penetrations in terms of units.

(E) — Estimated.
(P) — Preliminary.
N/A — Not available, or not applicable.

Source: Economic Consulting Services Inc.; based on U.S. Department of Commerce, International Trade Commission and Bureau of Labor Statistics data.

Mr. **Gibbons**. You can certainly be assured that we will review very carefully the oral statement that you have made today as well as your written statement and then evaluate these matters.

Are there questions for the witnesses?

Mr. **Frenzel**. I want to thank the witnesses for their testimony and ask if these complaints you have about the United States-Israel free trade area agreement deal with products which the ITC said in its special study were import-sensitive from Israel?

Mr. **Eisen**. I think the data that the ITC used is stale. They used 1983 data, and I believe that Ambassador Brock's office conceded that that should be rectified and they should use the 1984 data which is available, which will show that there's been some tremendous shipments from Israel in 1984.

Mr. **Nehmer**. I might say, Mr. Frenzel, I do not know what the ITC said, whether these products were included in those which they considered to be ultrasensitive which will be in the fourth stage. But if you have an import penetration of 85 percent, is that an import-sensitive product? If you have import penetration of 72 percent as with footwear, is that an import-sensitive product? If you have an import penetration of 67 percent as with leather wearing apparel, is that import-sensitive?

I do not care what the ITC said, it is clear from the record from what you in Congress have done insofar as these products are concerned to exclude them from GSP and from the Caribbean Basin Initiative, clearly these are import-sensitive products, Mr. Frenzel.

Mr. **Frenzel**. My problem, Mr. Nehmer, is that Congress did that with a lot of help and counsel from you, and certainly there were other opinions brought that it may not have been the best policy to exclude the items that Caribbean countries can best produce from the CBI, and perhaps this is a statement that says that we cannot always exclude these items.

And that of course leads me to the question, are we going to be obliged to protect these industries forever? Is that what we are getting at? We can never include them in any agreements and we must always say that industries that you gentlemen represent can never stand foreign competition and that Americans should not be allowed to purchase without some kind of extra payment any of these items from abroad? Is there no give in the situation and may we expect none in the future?

Mr. **Eisen**. I would like to respond to that, sir, that our industry is pouring money back into modernize our plants. I think the industry is the most efficient in the world. I commented that, you know, we are a privately owned company, the one I work for, and we poured $160 million back in 3 years to modernize plants and refurbish and to protect jobs.

And I think at some point in time all the technology should fall into place.

Mr. **Nehmer**. Sir, if I may add to that, the industries we are representing today account for about 2.5 million American jobs today, which is down considerably from what it was. There are probably another million-plus jobs that are dependent upon these industries for their livelihood. If you can tell me what the alternative job opportunities are that would exist in the absence of these industries or a greatly scaled down set of industries, then we might have an answer.

But there are no good alternatives, and the answer to your question is that long as it is necessary to keep people at work in this country, it is a heck of a lot more important than jobs in some of the other countries that people appear to be concerned about, Mr. Frenzel.

So long as it is necessary to keep those jobs going, yes, then protection is necessary. But talking about giving, the textile and apparel industry had an increase in imports of 32 percent in 1984 on top of a 25 percent increase in 1983. They have had a 57 percent increase in imports. It seems to me they have given at the office quite a bit.

Mr. **Bremer**. Mr. Congressman, with your indulgence, the question of gifts, we gave last year. We gave over 10 billion square yards, and I will freely and cheerfully admit——

Mr. **Frenzel**. Did you give it to Israel?

Mr. **Bremer**. No, sir; we gave to to everybody including Israel. We gave Israel a 473 percent increase in the products I referred to specifically this morning. When the ITC was looking at 1983 data they did not see market disruption; 205,000 sheets and pillow cases does not constitute disruption.

But that grew 473 percent. It is apparent to me that this has been targeted by Israel, and if it grew 473 percent with duties I shudder to think what is is going to grow without duties. I freely admit, sir, that with the most modern, the most efficient, and the most productive plants and workers in the world, no, sir, we cannot compete with 26 cents an hour labor. I am sorry.

Mr. **Frenzel**. Without reference to the difficulties that you have lately or even all of your difficulties, Mr. Nehmer, it sounds as if you have made a great defense of British steel. There is a real question of how long any country should be expected to subsidize through the consumer's pocketbook——

Mr. **Nehmer**. Sir, there is quite a difference—excuse me—between these industries and British Steel. British Steel Corp. receives $2 million a day, the equivalent of $2 million a day from the British Government; it is subsidized by the British Government. These industries receive not 1 cent from the U.S. Government in the form of subsidies.

I really think that that is not, if I may say, a very good comparison.

Mr. **Frenzel**. I will respond to the witness by suggesting that you have made a distinction without a difference. The U.S. textile industry gets $18 billion every year.

Mr. **Nehmer**. That figure is quite suspect, Mr. Frenzel.

Mr. **Frenzel**. Perhaps if you have a better one I will be glad to look at it.

Mr. **Eisen**. I would like to respond on that, Congressman.

Mr. **Frenzel**. Mr. Chairman, I yielded my time and I would like the witness to have a chance to respond. Please go ahead.

Mr. **Eisen**. I would like to respond to that. I think that—let me pick a specific item, men's dress shirts. One of the large retail chains in the United States retails a long sleeve men's dress shirt for $13. They buy those shirts in South Korea and pay $2.75. And that is first cost and by the time the shirt lands in the United States maybe it is $3.75 with duty and ocean freight and custom brokerage fees. And then adding on the cost of financing letters of credit or residential buying offices in the orient they figure that shirt landed in their stores at $4.25. That is a shirt that sells for $13.

This large retail chain makes a markup of over 205 percent on the cost, and I am speaking of full cost. We are not talking about consumers paying more money. We are talking about profits to the retailers.

Mr. **Matsui** [presiding]. Thank you. Are there any other members that have questions they would like to ask the panel?

If not, I would like to thank the four of you gentlemen for participating in this hearing today and we thank you very much.

I would like at this time to call the next panel, Mr. Pinkerton, Mr. Stewart, Mr. Korne, Mr. Wright, and Mr. Cooperman.

Each of you will be given 5 minutes to summarize your testimony. Your written testimony, which has been submitted to this committee, will be received and placed in the record.

We will at this time call on Mr. Pinkerton from the California Avocado Commission. Mr. Pinkerton.

STATEMENT OF RALPH M. PINKERTON, PRESIDENT EMERITUS, CALIFORNIA AVOCADO COMMISSION

Mr. **Pinkerton**. Good morning, Mr. Chairman and members of the subcommittee. I am Ralph M. Pinkerton, president emeritus of the California Avocado Commission, and I appreciate this opportunity to discuss with you the proposed United States-Israeli trade agreement and how it will adversely affect the depressed avocado industry.

The California Avocado Commission is organized under the laws of the State of California and represents all 8,500 California avocado growers who will employ approximately 20,000 primarily minority workers. Last year the commission, representing the views of those growers, submitted testimony to Congress and the International Trade Commission setting forth its objections to grants of duty free treatment to Israeli avocado exports under the proposed United States-Israeli agreement.

The public record indicates that our industry had compelling economic arguments to support the exemption of avocados from the duty reductions that were to be mandated by this agreement. We focused our efforts before the ITC on making a case for those commodities to be placed in the most sensitive category. It was the recommendation of this body that would determine which products were eligible for special treatment under the agreement.

We were never given the opportunity to review the ITC's findings. Today, 9 months after the conclusion of the ITC investigation, we find that the avocado industry is faced with the prospects of having a large portion of our duties removed immediately with the remainder phased out during the next several years. We understand that this treatment takes the form of an accelerated duty reduction scheme over 10 years with 40 percent of the duties eliminated by January 1, 1987. The proposed treatment, however, while providing a measure of protection, does not mitigate the current problems of the industry and in fact may accelerate those problems. We cannot comprehend how the ITC could have reached a conclusion regarding our industry that produced such results from our negotiations with Israel. It is our belief that the ITC must not have examined the issue directly.

In order to understand the devastating impact that any removal of duties will have upon avocado producers a review of the present state of the industry is appropriate. No other segment of California agriculture has suffered any more than the avocado growers have during the last 4 years. Production increases have been dramatic over this time period; 492 million pounds of avocados were harvested in the 1983–84 crop year as compared with 148 million pounds in the 1979–80 crop year. We project that 524 million pounds will be harvested in the 1984–85 crop year. The productivity of our growers has had the effect of depressing prices paid by retailers. As a result, California avocado growers have not seen a profit since 1980. Returns to California growers have fallen to 25 percent of the consumer price; 30 percent of the consumer price is needed simply to break even. Although the grower requires 35 cents per pound for harvested fruit, he is now averaging only 18 cents per pound and in some cases just 6 cents per pound. These are operating losses that few growers can afford to sustain, and bankruptcies are at an all time high.

Our industry is making every effort to pull itself out of the current crisis. Plantings of new avocado trees have virtually been stopped. Additional self-help efforts have focused on the vigorous promotion of U.S. avocados. The California Avocado Commission invests $5 to $6 million annually from assessments on growers to stimulate demand in the United States. The commission's ripe fruit program strives to educate retailers as to the benefits of selling ripe avocados to consumers. This program is based on studies which show that consumers are far more likely to buy the product if it can be consumed immediately. The program has successfully increased avocado sales among its participating retailers.

We expect the remedial actions taken by the industry will begin to produce favorable economic results for our growers within the next 5 years. These 5 years, then, are critical to the future livelihood of the industry. The efforts being made to revitalize the industry, however, will be in vane if the industry is faced during those years with increased competition from Israel. A depressed industry such as ours can ill afford to open its U.S. markets to foreign imports from any source. Domestic sales are already suffering from the influx of duty free avocados from the Caribbean Basin. Those imports have increased from less than 1.5 million pounds in 1982 prior to the Caribbean Basin Initiative to 3.5 million pounds in 1984 with much more to come. Even greater adverse effects are expected if reduced duties are granted to Israel, where avocado production and exports are booming.

The Israeli avocado industry, encouraged by a vigorous government subsidy program, has always been an aggressive exporter of avocados, with virtually all of its production destined for the export market. From 1980 to 1983 between 84 and 88 percent of Israeli avocado production was exported. As Israeli production increases, these substantial export shipments will be considerably undermining the U.S. industry.

With the help of the subsidized production credits from the Israeli Government, Israel has experienced massive plantings of new avocado groves in recent years. Plantings have increased an average of 3,300 per year allowing for huge production increases. In the 1982-83 crop year, Israeli production increased 40 percent over the previous year to 52,000 metric tons. Production is expected to increase over 90,000 metric tons by the end of the decade.

As a result of these unfair trade practices, Israeli avocados have severely limited U.S. avocado sales in the European Economic Community. Nor would these unfair trade practices necessarily be limited by a proposed agreement with the United States. We understand that Israel has agreed to eliminate its export subsidies only with regard to processed agricultural products.

Although Israel now supplies most of its avocados to the European Economic Community, the maturing of the Spanish avocado industry and the growth of production in South Africa will force the Israeli industry to rely more heavily on alternate export outlets such as the United States. Therefore, if the U.S. duty on avocados, which is currently 6.5 cents per pound, is reduced for Israeli exports, the Israeli avocados are certain to place an added strain on the already depressed U.S. market. At a time when our home markets are severely depressed, a reduction of this duty would be both economically devastating and inappropriate as a matter of policy.

Our Government acknowledged that our industry needed support when it placed avocados in the 10-year phase-down category. This is neither adequate nor fair since the initial duty upon implementation of the agreement is 20 percent. Mr. Chairman, avocados are certainly as import sensitive as orange juice and other products in the category that receive no duty reduction during the first 5 years. Our industry must be placed in this category to safeguard the fragile recovery that it is attempting to initiate. To preserve this recovery and prevent further losses to our growers we urge you to support a freeze of the current duty on Israeli avocado export for at least 5 years. The California industry needs 5 years without disruption from the loss of duties for its self-help program to restore the industry's financial stability. To do otherwise is to consciously add avocados to the list of commodities that need and are seeking direct government assistance.

We understand that the Israelis have placed most if not all of their horticultural products in a category with a 5-year freeze to be followed by a gradual 5-year phase out of the duties. The United States has a similar category but it has relied solely upon the advice from the ITC for selection of those commodities to be placed in most sensitive categories.

We urge that Congress exercise its own judgment on this issue. We believe that our situation is compelling and state that no other domestic horticultural industry has been forced to deal with any more adverse economic circumstances during the past 5 years than we have. This is true in spite of the apparent conclusions of an International Trade Commission report which we were never given the opportunity to address.

We respectfully request that this committee, which has oversight over this trade agreement, place fresh avocados in the most sensitive category. We do not believe, as some suggest, that the intention of Congress was merely to rubberstamp this agreement. Neither the ITC nor our trade negotiators have addressed our concerns. Therefore, the avocado growers must rely upon this committee to provide the sensitive duty treatment that the avocado industry requires in order to complete our economic recovery.

Your assistance will demonstrate that Congress does involve itself when an industry has not received the full consideration that it deserves. It also will demonstrate that it is not acceptable to reduce the duties on most U.S. horticultural products faster than Israel is reducing its duties. Clearly, Congress will insist upon fair and equal treatment for U.S. citizens and their interests. The 8,500 U.S. avocado producers thank you, Mr. Chairman, for your attention to their urgent situation.

Mr. MATSUI. Thank you, Mr. Pinkerton. I would like to at this time call the three gentlemen, Mr. Stewart, Mr. Krone, and Mr. Wright. Mr. Stewart, I believe, will testify. Is this correct?

STATEMENT OF EUGENE L. STEWART, COUNSEL, ROSES, INC., ACCOMPANIED BY JAMES C. KRONE, EXECUTIVE VICE PRESIDENT; AND CHRISTOPHER WRIGHT, CHAIRMAN, IMPORT ACTION COMMITTEE

Mr. STEWART. Thank you, Mr. Chairman and gentlemen of the committee. We have a few points to make which differ somewhat from the points made by those who have preceded us. We ask your particular attention to these points and also that of your staff.

First, we must begin by expressing our gratitude to this committee and to the Congress for your having taken the care to assure in section 406 of the Trade and Tariff Act of 1984 that U.S. trade laws would not be impaired by this trade agreement with Israel. We also thank you for recognizing in section 404(e)(5) of that act that fresh cut roses are sensitive, perishable products.

Second, regarding the draft of the trade agreement, we are pleased that the administration and its negotiating team respected the concerns that we expressed here in June 1984 before your committee and in April 1984 before the Trade Policy Staff Committee of the Trade Representative's Office. We are reassured by the procedure which resulted in a recognition of the import-sensitive character of fresh cut roses which have been excluded from duty reductions on list C of annex I to the agreement. That was based upon a finding by the International Trade Commission.

We have had a lot of experience in presenting our case here and before the commission and the Trade Representative's Office. In this instance for us the process worked and we want to register our appreciation to those that were responsible.

Third, it is heartening to the rose producers, 179 commercial rose growers in 32 States, that the trade agreement consistent with section 406 of the Trade and Tariff Act carefully refrains from modifying the existing antidumping and countervailing duty law and procedures because roses from Israel are one of the few countervailing duty cases that have resulted in an affirmative countervailing duty order. The current countervailing duty rate is 27 percent. It is very important to the rose growers that the trade agreement not impair or dilute the effective administration of that countervailing duty order and that concern of ours has been honorably addressed by the negotiators, and we thank Mr. Brock and his colleagues and this committee for the care that was taken in that respect.

Fourth, we note with appreciation that Ambassador Brock has secured a commitment from the Government of Israel to accede to the international antidumping and countervailing duties subsidies codes. That is an important part of the body of law for the enforcement of U.S. rights under those agreements, and we think that that particular commitment is salutary. We wish to make one important point which is not in our prepared testimony, and we ask your careful attention to the following statement.

The countervailing duty order which is in existence addresses subsidies that were made available to the rose growers in Israel prior to the time that the Israeli Government considered accepting the obligations in the international agreements of divesting itself of its subsidies. The market position of Israeli roses in the U.S. market was purchased on the basis of those very substantial subsidies.

When Israel accedes to the agreement it will become entitled to an injury test. We believe that this committee in its enactment of the approving legislation should provide that with respect to existing countervailing duty orders applicable to products from Israel that provisions of section 751(b) of the Trade Act of 1979 would not apply.

That is to say Israel should not be allowed to subject past countervailing duty orders to the injury test by requesting review by the International Trade Commission under the provisions of section 751(b).

I respect the time limitations that have been expressed by the chairman. I see that the light is on. We make an important point on page 3.

Mr. MATSUI. You still have a little more time, Mr. Stewart. Go ahead.

Mr. STEWART. Thank you. A very important feature in this trade agreement, Mr. Chairman, we want to comment on it in our point No. 5, and that is the recognition in the agreement of the principle that specific duties and charges imposed by the United States or Israel expressed in their national currencies may be eroded and made ineffective by the decline in the value of the currencies.

In my experience, for the first time in a trade agreement the United States has provided for the indexing of specific rates of duties to the exchange rate, so that as the exchange rate declines, thus diluting the effectiveness of specific duties, those duties will be increased in the manner described in the agreement.

That is very fine and on its face is evenhanded treatment for both the United States and Israel to accomplish that. However, Mr. Chairman and gentlemen of the committee, specific rates of duties are also diluted by inflation. In the case of Israel with a very strong inflation rate, they have in effect indexed the value of their currency to their inflation rate. As inflation increases through successive devaluations of the value of their currency vis-a-vis the dollar and other currencies, they adjust for that externally. So the trade agreement in effect provides by cause of that linkage that Israel will increase their specific duties applicable to U.S. exports going into Israel as their currency is devalued, as their inflation rate increases, but on the U.S. side there is no such linkage. Therefore, there is an inequality and an unfairness in that particular provision which we believe is unintended, and we recommend that the committee request the STR to reexamine that particular provision of the trade agreement.

Our final point is in regard to the dilution of the escape clause, section 201 of the Trade Act of 1974 by the provisions of the trade agreement. Contrary to the care that was taken in the agreement itself to exempt antidumping and countervailing duty procedures from the consultation provisions and dispute settlement provisions of the agreement, no such exclusion was made for actions by the President under the escape clause, section 201, or under section 301 or indeed under section 337 of the Tariff Act.

If you examine the provisions of the agreement, there are three tiers of consultation that the United States is obliged itself to go through if it proposes taking an action that Israel will regard as contrary to what it has bargained for under the agreement. And escape clause action would be one such type of action.

The effect of these three levels of review and the elastic time periods for that review would be to prevent the President from taking action under section 201 in accordance with the statutory provisions and in accordance with the expedited escape clause procedure under section 403 of the Trade Act of 1984.

We believe that your committee and the Congress made it clear in the Trade Act of 1984 that it did not intend the trade remedies against injury to be diluted by the trade agreement.

Yet, as we develop in our prepared testimony, point No. 6 beginning at page 5 and following, this is the effect of the provisions of the agreement as it will apply to the trade agreement.

Further, as we make clear in our point No. 7 on page 7 of our testimony, even where there is a successful escape clause case under section 201 which, as the chairman knows, applies to all imports, Israel could request that imports from Israel be excluded from the escape clause action, an additional and different amendment of the escape clause under the trade agreement.

Finally, Mr. Chairman, we make a point that I will not elaborate on at point eight of our statement that we would like to have considered. Thank you.

[The prepared statement follows:]

Statement on Behalf of Roses Inc.

Mr. Chairman and members of the committee: This testimony is presented on behalf of Roses Incorporated, the trade association representing the domestic rose growers. While we are presenting our views through a single spokesman today, our witness group includes Christopher "Chip" Wright, President of N.H. Wright, Inc., Cranbury, New Jersey, Chairman of the Import Action Committee of Roses Incorporated: James C. Krone, Executive Vice President of Roses Incorporated, Haslett, Michigan; and Eugene L. Stewart, Esq., Special Counsel to Roses Incorporated, Washington, D.C.

Roses Incorporated has 179 members, predominantly family-owned, small businesses, located in 32 States. They represent a capital investment of about $67 million and employ a work force of about 3,500 persons.

I

We begin by expressing our gratitude to Congress for its having taken care to assure at section 406 of the Trade and Tariff Act of 1984 that the applicability of U.S. trade laws to imports of Israeli articles would not be impaired by any agreement negotiated with Israel. We also thank Congress for recognizing at section 404(e)(5) of the 1984 Act the import sensitive and perishable character of fresh cut roses. These were two of matters on which we expressed concern in our testimony before this Committee on June 13, 1984 in the context of the proposed United States-Israel Free Trade Area.

II

Regarding the draft U.S.-Israel Free Trade Area Agreement with which we are concerned today, we are pleased to see that the administration and its negotiating team have respected many of the concerns we expressed both in our June 13, 1984 testimony before this Committee and our April 13, 1984 testimony before the Trade Policy Staff Committee of the USTR. We are particularly reassured to see that the administration recognizes the highly import sensitive character of the domestic industry producing cut roses and that, therefore, fresh cut roses from Israel are included on List C, meaning that the duty rate will be frozen until January 1, 1990 and that the rates of duty to be applied on and after January 1, 1990, shall be determined after consultations beween the Governments of Israel and the United States. Draft Agreement, Annex 1, Paragraph 4.

III

It is heartening to see in the USTR summary of the draft agreement the express assurance that the agreement, in accordance with section 406 of the Trade and Tariff Act of 1984, does not alter the existing administration of antidumping and countervailing duty procedures. USTR Summary at 2. Inasmuch as the International Trade Administration of the Department of Commerce has found that the Israeli rose industry receives countervailable subsidies under 10 programs—a total which the U.S. Court of International Trade has recently expanded to 14 programs (*Agrexco* v. *United States*, 9 CIT——, Slip Op. 85-13 (February 1, 1983))—it is essential to the domestic industry that the countervailing duty order remain in place.

IV

We also note with pleasure that the Government of Israel intends to accede to the Agreement on the Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade (GATT) no later than the effective date of the agreement. Draft Agreement, Annex 4. Israel's acceding to the principles of GATT is, of course, fully consistent with, and an important step toward assuring that, as required at section 406 of the 1984 Act, the Free Trade Area Agreement will not impair the applicability of this nation's trade laws to imports from Israel.

V

Roses Inc. would like to express its satisfaction with the recognition in the agreement of the principles that specific duties and charges imposed by the United States or Israel, and express in their national currencies, may be eroded by the decline in the value of those currencies. Article 20 of the Agreement specifically provides that duties imposed by the United States may be increased to maintain the value of the duty in accordance with Annex 1 if the value of the currency of the United States, as measured in Special Drawing Rights of the International Monetary Fund, decreases by more than 20%. Similarly, in paragraph 2 of Article 20, it is provided that Israel may increase its duties if the value of the Israeli currency, as measured against the dollar, decreases by more than 20%. Roses Inc. is concerned, however, that provision is not made for indexing to inflation rates. This would, in terms of effect, create an unfair advantage for the Israelis in that Israel has maintained a policy of linking its exchange rate to its inflation rate and has repeatedly devalued its currency to counteract the effects of this high inflation rate.

The table following illustrates this point by comparing Israeli inflation with the declining value of the Israeli Shekel. Between January and June of 1984 consumer prices in Israel doubled. Compensating for this, however, is a devaluation of the shekel from 116 to 215 shekels per dollar. The next month, the value of the shekel declined to 254 shekels per dollar. Thus, with a slight lag, the devaluation of the shekel completely offsets the impact of inflation. The value of the dollar, on the contrary, has not been linked to the U.S. inflation rate. Thus, the agreement, as it now stands, has the effect of allowing the Israelis to link their import duties to their inflation rate without allowing the United States to do so. While at first blush the provisions of the agreement appear evenhanded, in practice they would offer a considerable, and presumably unintended, advantage to Israel.

INFLATION RATE IN ISRAEL-VALUE OF THE ISRAELi NATIONAL CURRENCY IN 1984

	Consumer prices in Israel (1970=100)	Israeli Shekels per U.S. dollar
January	83,264	116.7
February	100,744	130.2
March	111,464	146.4
April	122,223	168.7
May	142,560	191.5
June	160,478	215
July		253

Sources: Prices in Israel: Bulletin of Labour Statistics, International Labour Office, 1984–4, at 130. Exchange rates: Federal Reserve Bulletin, July 1984, at A64.

VI

Roses Inc. is, moreover, concerned that Article 5 of the Agreement would have the effect of modifying the operation of Section 201 et seq. of the Trade Act of 1974 (Chapter 1 of Title II), and will inhibit the granting of effective and prompt relief thereunder to domestic industries injured by import competition. This is in contravention of Article 406 of the Trade and Tariff Act of 1984 which states specifically that any trade agreement entered into with Israel may not affect in any manner the application to any Israeli articles of Chapter 1 of Title II of the Trade Act of 1974 or any other provision of law under which relief from injury caused by import competition or by unfair import trade practices may be sought. It also violates Articles 403 of the Trade and Tariff Act of 1984. Article 403, dealing with the application of section 201 in the context of a trade agreement with Israel, does not permit the procedures envisioned in the agreement. Article 5 of the Agreement requires consultations in accordance with Article 18 before any action is taken with respect to injury caused by import competition. The procedures described in Article 18 are lengthy, and will substantially reduce the chances for timely and meaningful relief under Section 201. First, the party claiming injury must notify the other party, including a description of the circumstances leading to the proposed action. Article 18, paragraph 1. Then, if the other party so requests, consultations must be held. Article 18, paragraph 2. If these consultations do not result in the resolution of the conflict, either party has the opportunity to refer the matter to the Joint Committee. Articles 17 and Article 199(c). If within a period of sixty days after the dispute was referred, or within such longer period as the Committee agreed upon, the matter is still not resolved, either party may refer the matter to a conciliation panel. If this still does not end the dispute, the panel will, within three months, make a non-binding report. Article 19(e). Only after this report has been presented is the party affected entitled to take measures to provide relief to the injured industry. Article 19, paragraph 2. Roses Inc. submits to this Committee that this procedure violates Section 406 and 403 of the Trade and Tariff Act of 1984 because it will substantially delay any relief under Section 201 of the Trade Act of 1974.

VII

In addition, Article 5, paragraph 3, which by its terms would allow U.S. imports from Israel to be singled out for exclusion from any remedy granted under section 201 et seq. of the Trade Act of 1974 when it can be shown that Israeli exports are not a significant cause of serious injury or threat thereof, also has the effect of diluting the application of remedies under section 201 of the Trade Act of 1974, and thus violates sections 403 and 406 of the Trade and Tariff Act of 1984.

VIII

Roses Incorporated has concerns with respect to the "direct importation" requirements for obtaining duty treatment under the agreement set forth at paragraph

1.(b), and defined at paragraph 8, of Annex 3 of the draft Agreement. These concerns stem from Israel's present practice of permitting Israeli roses to be transshipped to the United States through the Netherlands which arrive in the United States bearing Dutch country of origin markings, thereby avoiding payment of the countervailing duties applicable to Israeli roses. While it cannot yet be assumed that this practice will be reversed and roses of other countries transshipped to the United States through Israel to take advantage of the provisions of the Free Trade Area Agreement [since, at least until January 1, 1990, the regular tariff assessments on Israeli roses is not to be reduced, and since the countervailing duties required to be deposited on roses from Israel presently stands at 22.56% (*see* 49 Fed. Reg. 924)] the possibility of such a practice occurring in duty-free product categories is very real.

Mr. **Matsui.** Thank you, Mr. Stewart. I'd like to call on Mr. Cooperman at this time.

STATEMENT OF RICHARD M. COOPERMAN, EXECUTIVE DIRECTOR, INDEPENDENT ZINC ALLOYERS ASSOCIATION, INC.

Mr. **Cooperman.** Thank you, Mr. Chairman, members of the committee. The United States consumes about 1 million tons of zinc a year in good years. Independent alloyers produce and provide almost 20 percent of that total, and I speak today for the Independent Zinc Alloyers Association.

The provision in the United States-Israel Free Trade Agreement is a threat to the independence of the U.S. zinc alloyers. The proposed agreement in annex I, second stage, provides that the duty on products not included in the Tokyo round of the MTN shall be reduced to zero by 1989. This provision would end the U.S. public policy sanctioned by Congress in the Trade Act of 1974 and agreed to by our trading partners.

Zinc alloyers constitute a truly American industry providing specification metal alloy for use in automobiles, trucks, armored cars, tanks, weapons carriers, household water faucets and hundreds of other industrial and consumer products.

There are less than 35 custom alloyers in the United States. Three are part of integrated companies that produce other zinc products. The remaining firms are family owned, family founded, and family operated. They provide employment in communities all across the United States and they are essential to many other basic domestic industries.

The U.S. Government as a matter of public policy has protected these companies for approximately 35 years. This policy was reinforced in the late 1970's when the Trade Policy Committee staff excepted the duty on zinc alloy from the Tokyo round of multilateral trade negotiations under section 101 of the Trade Act of 1974 when the United States tabled the exception in Geneva during the Tokyo round and all of our trading partners agreed to except this duty from the negotiations.

The document requesting the exception contains business confidential data on the industry pertinent to 1977. It was submitted September 2, 1977. It is the basis upon which the exception was granted.

Most of the numbers concerning the prices have changed by virtue of inflation. However, the increases can be applied uniformly. Not very much of the market for zinc alloy has been regained between 1977 and 1985, and zinc based alloy produced by independent companies is about the same as the average of the years 1974 through 1979, shown in attachment C of the submission. In general, the submission is quite an accurate profile of the domestic industry today and the conclusions are still appropriate.

With the chairman's permission I would like to offer this document nominating alloys of zinc for an exception from the 1979 round. Since it does include business confidential data I would ask that the committee, if possible, restrict the use of it to the committee and to the staff.

Domestic zinc alloys have survived as an import-sensitive industry because of a long term consistent policy of the U.S. Government. The owners and operators of these companies and their employees should not suddenly and abruptly face the end of that protection in a single negotiation by an agency of the U.S. Government, nor should the contemporary politics of international agreements be the instrument by which the fruits of lifelong investments in family businesses be destroyed.

It is relatively easy to establish a zinc alloying operation on a greenfield basis, within a short time, 4 to 6 months. Plants are not costly to build.

We are concerned that as the duty begins to drop between the United States and Israel zinc alloying facilities will be put in place in Israel and they will be the only other alloying plants in the world that have free access to our markets. Not even GSP countries have that access.

The use of zinc has been in decline in the United States for many years. The year 1984 saw the first strong recovery in over a half decade. This is the result of dollars eked out of barely profitable years and put into marketing programs by alloyers and their customers, the die casting companies. IZAA can point to an applied technology and market training program instituted in 1977 to improve sales. The industry did not ask for help from the Government, and they should not now suffer penalties at the hands of their Government.

This trade agreement, if it is approved without consideration for import-sensitive industries, will be a monument to singlemindedness in a multicomplex world. Industry understands that it is no longer possible to have a singular free trade or protectionist policy in this world and Government must begin to understand it. Certainly, what has been done on this agreement should not be permitted to stand as precedent for any future bilateral or multilateral negotiations. Thank you for this opportunity to address you today.

Mr. MATSUI. Thank you very much, Mr. Cooperman. The document that you requested that the members have available to themselves, you would not want that in the record; you would just want it to be available. Is that my understanding?

Mr. COOPERMAN. Well, we would like to enter it, Mr. Chairman, and if it is necessary to enter it without the caveat with respect to business confidentiality we will waive it so that it can be available to the committee.

Mr. MATSUI. Yes; then the document will, in fact, be entered into the record. Thank you.

Mr. Frenzel, do you have questions?

Mr. **Frenzel**. Mr. Chairman, I am not sure that is what the witness intends. You do not want that document in the hearing record, do you?

Mr. **Matsui**. Well, perhaps the gentleman could clarify that. We could put it in the hearing record itself which would make it available to the public generally or else the gentleman could have the document given to the Ways and Means Committee, available for the members who would like to read the document.

Of course, then it would only be available to the membership. It would not be at that time part of the record.

Mr. **Cooperman**. Thank you, Congressman Frenzel. I would prefer to give it to the committee and have it available to the committee and not to be included in the public record.

Mr. **Matsui**. I misunderstood the gentleman. The document will then not be included in the public record, but made available to the members. Thank you, Mr. Frenzel.

Mr. **Frenzel**. I want to thank the witnesses for their fine testimony and I do have a question of Mr. Stewart, I guess, or any of the Rose people. You made two points that had me a little confused. One related to the fact that Israel would have some ability to adapt for its rate of inflation and the United States would not and that you demanded that those be equalized.

As I understand the rate of inflation in Israel is somewhere around 1,000 percent, give or take a couple of hundred, and the rate in the United States is 4 percent. Do you believe that would give an enormous advantage if we got full credit for our 4 percent.

Mr. **Stewart**. I did not make my point fully clear, and thank you, Congressman, for raising the question. The agreement provides that the specific rates of duty, which are numerical values, will be indexed by changes, by declines in the values of each country's currency. In the case of Israel they link the value of their currency through devaluation to their inflation rate. Thus, there will be rapid declines in the value of the shekel in the years of the agreement, and that will cause specific rates of duty to be significantly increased. Although they are subject to being phased out, the increase that will be produced by that indexing feature will overcome the reduction so that American exports going into Israel will not benefit as it appears they should from the trade agreement. The contrast with the United States is that we are merely indexing our specific rates of duty by the value of the dollar, which, as is well known, has not declined. And while it could decline in the course of the next 10 years, its rate of decline is not a function of the inflation rate in the United States.

There is abundant literature expressing concern that in the future the events of the high value of the dollar, the deficits, and the like, will produce a devaluation of the dollar and an increase in the inflation rate, but our change in specific duties will not be a function of that change in the inflation rate.

Thus, the machinery for changing the level of specific duties will not operate pari passu or equally. That was the point I wanted to call to your attention.

Mr. **Frenzel**. I am still confused. Do you expect to export a lot of roses to Israel?

Mr. **Stewart**. We are expressing it not only in terms of our exports, but I am here as an experienced practitioner in this area of the law, and I felt we had an obligation to call the committee's attention to this particular feature for its consideration on a broader scale.

We have, however, Mr. Congressman, sought dilligently to develop export markets and barriers in Europe and in Israel and elsewhere have denied us to this point a significant export market.

Mr. **Frenzel**. Thank you. Mr. Chairman, may I ask the Chairman if we might direct the staff to inquire of the negotiators on this subject so that we might take the gentleman's point under more careful scrutiny.

Mr. **Matsui**. Without objection.

Mr. **Frenzel**. I thank the Chairman. The other question I had related to the injury test. You indicated—at least I thought you indicated—again subject to some confusion here—that Israel would get some sort of special use of the injury test.

Is it not true that people who signed the subsidies code get the advantage of the injury test?

Mr. **Stewart**. That is the case, but one must note carefully that when the subsidies code was entered into with that prospective feature the entitlement to the injury code was on cases arriving subsequent to their acceding to the agreement.

Out of an abundance of caution I was calling attention to the fact that we have in place a countervailing duty order that eventuated from an investigation in the past. That order continues and is reviewed annually. There is a provision of the Trade Act, section 751(b) that might be interpreted as allowing the Israelis to request that the countervailing duty on roses be subjected to review by the International Trade Commission when they then apply the injury test.

And it was my point, a request, that the committee put a provision in the enabling legislation that the entitlement of Israel to the injury test provided in the international agreement would be prospective and not be made retroactive to existing countervailing duty orders.

Mr. **Frenzel**. I guess it was my understanding that that was our intention. And again I would ask the staff to look into this. I thought we were prospective and we were protecting previous arrangements, but we will be glad to try to clear that up.

Mr. **Stewart**. Thank you.

Mr. **Matsui**. Without objection, Mr. Frenzel's request——

Mr. **Frenzel**. I am very glad I was confused by your testimony. You have helped me a lot.

Mr. **Matsui**. Mr. Pinkerton, I would like to ask you a question. You have indicated that the ITC did not give the avocado industry an adequate hearing on the issue of import sensitivity. May I ask you, did your industry participate in the ITC evaluation itself?

Mr. **Pinkerton**. We submitted our arguments, Congressman Matsui, why I thought we were import sensitive, yes.

Mr. **Matsui**. And in your testimony you have indicated that the ITC is incorrect in its analysis, but was there a lack of evidence—are you alleging there was a lack of evidence; in other words, there was a time to present all of the evidence or are we alleging in this situation that they made a mistake even though they had all the evidence?

Mr. **Pinkerton**. I don't think they made a mistake so much, Congressman Matsui, as I do not think they considered the arguments. It seems to me that the arguments that we presented were not even considered nor did we have an opportunity to respond to the reasons why they decided that we were not import-sensitive.

We never saw any rationale back on why they decided yes or no on import sensitivity on California avocados.

Mr. **Matsui**. Are there any other products such as yours in terms of the statistical information, the loss of profits and those kinds of variables that went before the ITC and did receive import sensitive status?

Mr. **Pinkerton**. All that I can respond to are those that were import sensitive and it is not apparent to me what criteria was used to decide import sensitivity. I can look at orange juice, for an example, which is in very short supply now because of the freezes. So while that might be unfortunate, certainly orange juice at this time is not import-sensitive in relation to the situation we find avocados in.

Mr. **Matsui**. Thank you. I have no further questions. Mr. Pinkerton, did you have another comment you wanted to make?

Mr. **Pinkerton**. No.

Mr. **Matsui**. Mr. Frenzel, do you have any further questions?

Mr. **Frenzel**. I do not. I thank you.

Mr. **Matsui**. I thank the gentlemen for their testimony and we appreciate it very much.

I would like at this time to call Mr. David Sadd, the executive director of the National Association of Arab Americans. Mr. Sadd.

STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ARAB AMERICANS, ACCOMPANIED BY MARIA SEGAL, COORDINATOR OF CORPORATE AFFAIRS; AND TANYA RAHALL, DIRECTOR OF GOVERNMENT AFFAIRS

Mr. **Sadd**. Maria Segal is on our staff and responsible for corporate relations and Tanya Rahall is our deputy director for government affairs.

Mr. **Matsui**. Welcome to the committee. I will mention again your written statement, which has been submitted to the committee, will be introduced into the record, and you have 5 minutes, approximately 5 minutes in which to testify and summarize that testimony, if you would like.

Mr. **Sadd**. Thank you. We appreciate the opportunity to testify. I would like to thank Congressman Gibbons for earlier indicating his interest in taking up a Free Trade Area Agreement with interested Arab countries, and I would like to mention that there will be a prominent trade delegation visiting from Saudi Arabia in April and which may be interested in talking about the subject with some members of this committee.

We are concerned that U.S. trade and economic policy in the Middle East promote our national interests and contribute to the well-being of both the United States and the countries in the Middle East. Trade is an important component of our Nation's foreign policy. We support the principle of free trade under conditions which are fair and equitable. We believe the United States must take additional steps, however, to ensure that this agreement does not endanger vital domestic industries nor harm our relations with key trading partners in the Arab world.

We would like to express our concerns in four areas: Israeli export subsidies; Israeli nonexport subsidies; the impact of free trade on U.S. high-tech and defense manufacturing industries; and the need for balance in U.S. trade policy toward Israel and the Arab world.

Under the free trade agreement Israel will accede to the international subsidies code of the GATT. Further, Israel commits to eliminate export subsidies no later than 6 years after the agreement is signed.

However, as has been mentioned by some of the earlier witnesses an imbalance does exist in the reduction of export subsidies with regard to the rate at which the proposed reductions of tariffs will take place. I will mention an example that hasn't been mentioned. Under the staging arrangement 98.5 percent of Israeli exports in electronics and instrumentation—these account for over $117 million in Israeli exports to the United States—would be duty free immediately, although they will still benefit from export subsidies.

Additionally, there is now a difficult burden on domestic industries to prove significant injury due to competition from subsidized foreign industries before the President will take steps to rectify the matter.

We urge that reductions in tariffs be staged to directly reflect reductions in Israeli export subsidies.

With respect to Israeli nonexport subsidies, the Israeli Government plays a role in economic affairs considerably larger than the role the government of any industrialized Western country plays. It affects pricing by means of subsidies in the capital market, the supporting of interest rates and the directing of credit.

I would read you a description by Patrick Buchanan, now communications director of the White House. He is quoting from a visit in Israel with a gentleman named Ezra Zohr.

> We are the most socialist nation this side of the Iron Curtain. The degree of state intervention and control of the economy is almost beyond the imagination of an American citizen. Everything from housing to farming is dependent upon the political favor of the ruling powers; from food to gasoline it seems everything is subsidized.

At present, as well, there is easy Israeli Government access to emerging American technology. Unlike the United States, however, Israeli Government agencies subsidize 50 percent of the cost of high-tech new product development.

The free trade agreement, as proposed, will find itself difficult to operate well in an environment where we have a nonmarket based economy completely subsidized, able to price its goods at whatever it finds convenient.

With respect to the free trade area and its impact on U.S. high-tech and defense industries, we are particularly concerned here because of Israel's emphasis on high tech and defense exports. I would like to point out that there is easy access to U.S. technology again. This is provided by dual citizenships of Americans and Israelis; Israeli companies that are founded by American companies or jointly owned, through which technology easily flows; and a general predilection in our Government with respect to the ease with which information moves to the Israelis.

I would also point to preordained movements of technology such as those evident in the Lavi technology package—our funding of Israel's production of a high performance jet aircraft.

We have a circumstance where the Israelis are able to get our technology, and then subsidize the production of equipment based on that technology. They are going to be in our market selling particularly defense sensitive materials in competition with our own suppliers. I think from the perspective of our national security concerns as well as from the perspective of the economic well-being of this country we have to look for additional protection provided to U.S. defense manufacturers against nonexport subsidies.

I notice my time is nearing completion.

Mr. MATSUI. Continue. You still have some time.

Mr. SADD. I would like to comment on the "Buy National" restrictions. We oppose the removal of these restrictions on defense procurement. Until now only our NATO allies have been excluded from tariffs on defense purchases. And again our industry does not need any additional disincentives, particularly in light of the recent authorization of offshore use of FMS credits. I mentioned the Lavi and earlier the Merkava tank.

Although the agreement stipulates that Israel will relax its offset requirements on purchases by Israeli Government agencies, the Ministry of Defense is exempted. We believe it should be included. Under normal offset arrangements the foreign purchaser pays cash—not FMS credits—to the American contractor and negotiates some percentage of offsetting business.

Israeli defense purchases are made with FMS credits. Public law now requires that FMS moneys be spent in the United States. There is no need for allowing offset purchases in addition to grant moneys that allow Israel to purchase this equipment.

Last, with respect to the need for balance in our policy toward Israel and the Arab world, our trade efforts will not be balanced if we do not take an active interest in negotiating agreements and improving trade relations with the Arab countries.

In 1984, the United States enjoyed a $3.7 billion trade surplus on $15 billion of exports. This was responsible for 600,000 jobs. The potential for U.S. exports to Arab markets is substantial. In 1982 the Arab world imported well over $70 billion. We wonder why Israel rather than one of the Arab countries with much larger trade markets was not selected as the initial country with which to negotiate an agreement, and we certainly urge the administration and this committee to actively pursue such negotiations with interested Arab countries. Thank you.

[The prepared statement follows:]

STATEMENT OF DAVID J. SADD, EXECUTIVE DIRECTOR, OF THE NATIONAL ASSOCIATION OF ARAB AMERICANS

The National Association of Arab Americans welcomes the opportunity to present testimony to this committee on the agreement to establish a free trade area with Israel. As representatives of the more than three million Americans of Arab descent across the United States, the National Association of Arab Americans is deeply concerned that U.S. trade and economic policy in the Middle East promote U.S. national interests in the region and contribute to the well-being of both the United States and the countries of the Middle East.

Trade is an important component of our nation's foreign policy. It can help to strengthen our partnership with countries that share our concern for peace, stability, and mutual economic growth. We support the principle of free trade under conditions which are fair and equitable. Yet the United States must take steps to ensure that this agreement does not endanger vital domestic industries, nor harm our relations with key trading partners in the Arab world.

In this regard we will address our concerns as follows:

I. Israeli Export Subsidies;

II. Israeli Non-Export Subsidies;

III. The Impact of the Free Trade Area on U.S. High-Tech and Defense Industries; and

IV. The Need for a Balance in U.S. Trade Policy Toward Israel and the Arab World.

I. ISRAELI EXPORT SUBSIDIES

Under the FTA agreement, Israel will accede to the international subsidies code of the General Agreement on Trade and Tariffs (GATT). Further, Israel commits to eliminate export subsidies no later than six years after the agreement is signed. We believe this is essential to an equitable agreement. However, an imbalance exists in that the reduction of subsidies does not correspond with the proposed reduction of tariffs for numerous key industries. Under the staging arrangement, for example, 98.5 percent of Israeli exports in electronics and instrumentation (which accounted for over $117 million in Israeli exports to the U.S. in 1982) would be duty free immediately, although they would presumably still benefit from export subsidies. This will place a difficult burden on domestic industries to prove significant "injury" due to competition from subsidized foreign industries before the President will take steps to rectify the matter by reimposing tariffs. We urge that the reduction in tariffs be staged to directly reflect reductions in Israeli export subsidies.

II. ISRAELI NON-EXPORT SUBSIDIES

The Israeli government plays a role in economic affairs considerably larger than the role the government of any industrialized Western country plays. It affects pricing by means of subsidies and the capital market by supporting interest rates and directing credit. At present there is easy Israeli government access to emerging American technology. Unlike the US, however, Israeli government agencies subsidize 50 percent of the cost of high-tech new product development. The free trade agreement as proposed does nothing to protect high-tech American manufacturers from onerous Israeli government non-export subsidies.

III. THE IMPACT OF THE FREE TRADE AREA ON U.S. HIGH-TECH AND DEFENSE INDUSTRIES

NAAA is concerned that the U.S.-Israel FTA agreement may undermine our domestic high-tech industry—and the jobs that it generates. Israel seeks to dramaticaly increase its exports of high technology, particularly defense related products to the United States. In 1981, high-tech exports amounted to $1.2 billion, or 33 percent of total Israeli industrial exports. By 1991, the Ministry of Trade hopes to increase the level of high-tech exports to $6.8 billion, or 62 percent of total industrial exports. Since Israeli export subsidies might not be eliminated until 1991 and Israeli non-export subsidies will continue, our domestic high-tech industry would face onerous and unfair competition. We urge that Israeli high-tech industries be excluded from tariff reductions until export subsidies are eliminated, and that additional protection be provided to U.S. manufacturers against non-export subsidies.

Article 15 of the agreement provides for elimination of all "Buy National" restrictions relating to government procurement between the two nations on purchases of a contract value of $50,000 or more. NAAA opposes the removal of these restrictions on defense procurement. The impression this will create among our Arab allies will be discussed later; until now, only our NATO allies have been excluded from tariffs on defense purchases. Our defense industry does not need any additional disincentives—particularly in light of recent congressional authorization of Israeli off-shore use of FMS credits.

Although the agreement stipulates that Israel will relax its offset requirements on purchases by Israeli government agencies, the Ministry of Defense is exempted.

We believe it should be included. Under normal offset arrangements, the foreign purchaser pays cash (not FMS credits) to the American contractor and negotiates some percentage of offsetting business from the American firm. Our offset arrangement with Israel is abnormal; Israeli defense purchases are made with U.S. FMS grants. Public law requires that FMS monies be spent in the U.S. No country should use FMS credits to negotiate offsets. Offsets should therefore not be allowed on Israel's FMS supported purchases.

IV. THE NEED FOR BALANCE IN U.S. TRADE POLICY TOWARD ISRAEL AND THE ARAB WORLD

Mr. Chairman, we urge this Committee to take steps to ensure that this agreement does not further perpetuate the fundamental imbalance in U.S. policy toward Israel and the Arab world. Our trade policy will be imbalanced if our efforts to reach such agreements with countries in the region begin and end with Israel. We hope that Congress takes an active interest in negotiating agreements and improving trade relations with Arab countries.

In 1984, the United States enjoyed a $3.7 billion trade surplus with the Arab world. The potential for U.S. exports to Arab markets is substantial—in 1982 the Arab world collectively imported well over $70 billion. In light of these figures, we question why Israel was selected for initial negotiations on a free trade agreement instead of with greater export potential for American goods and services. We believe there are a number of Arab countries, which have long provided a market for American products, that are seeking to promote their export industries and would welcome the opportunity to explore new trade possibilities with the United States. We urge the Administration, and this committee, to actively pursue such negotiations.

Mr. **Matsui**. Thank you, Mr. Sadd. Mr. Frenzel.

Mr. **Frenzel**. I want to thank the gentleman for his testimony. As I recall the statement of the subcommittee chairman last year to which the witness referred when he began his testimony, I think the subcommittee is interested in expanding bilateral free trade agreements. I do not know how interested and at what rate or how it may proceed, but if the witness can be helpful to us with any country—and you have already suggested one that might be interested in at least beginning discussions—I think the committee would be indebted to him.

We do thank you for your interest in these matters and for the presentation of your testimony.

Mr. **Matsui**. Thank you. Mr. Sadd, are you saying in your testimony that you support or oppose or are taking no position on this agreement?

Mr. **Sadd**. We support the concept of a free-trade agreement. We do think this agreement needs some improvement. Again, we think the phasing out of tariffs has to correspond with the removal of Israeli export subsidies. At present they do not correspond.

Second, there are significant Israeli nonexport subsidies: simply the socialist nature of their economy and their orientation to provide heavy subsidy to their industries.

At present we are very concerned that there is no protection for the American manufacturer facing a heavily subsidized nonmarket socialist producer.

Last, we do not believe that the Ministry of Defense should be exempted from the Israeli Government's relaxation of offset requirements, and we don't believe the Israeli Ministry of Defense should be able to negotiate offset agreements to purchase U.S. military equipment with U.S. grant moneys. Historically that has not been a pattern that has been allowed. So again we favor the concept of free trade, but we recommend that specific steps have to be taken to improve this agreement.

Mr. **Matsui**. I will not attempt to challenge your characterization, but I certainly would not characterize Israel as a socialist country. I would consider it to be a democracy in the Middle East. I suppose if we characterize Israel as socialist there would be a lot of countries that we would not trade with. A lot of countries support and subsidize businesses and they are still considered democracies. But I will not argue that point with you. I just would make that statement for the record.

I do thank you very much for your testimony, and we all look forward, I believe, on this committee to working with you and others in terms of future free trade zones as well. Thank you very much for your testimony.

Mr. **Sadd**. Thank you for your time.

Mr. **Matsui**. Mr. Downey has requested that a document by Peggy Blair entitled "A U.S.-Israel Free Trade Area: How Both Sides Gain" be placed in the record. And without objection I would place this document on behalf of Mr. Downey in the record.

[The document follows:]

A U.S.-ISRAEL FREE TRADE AREA

How Both Sides Gain

Peggy Blair

AIPAC Papers on U.S.-Israel Relations

Editors: Steven J. Rosen
Martin Indyk
Business Manager: Peggy Shay

Chapter 1
An Historic Step

The United States and Israel have had a close and in many ways unique relationship since the creation of the state of Israel in 1948. Now the two countries are exploring what could be another unique and historic step: the establishment of a Free Trade Area (FTA) which would eliminate virtually all tariffs on goods traded in either direction between them. In addition, non-tariff barriers, such as quotas, restrictive licenses, and other practices which discriminate against the other country's products, would be substantially reduced.

The decision that the two governments would begin negotiations to establish an FTA was announced at the end of Israeli Prime Minister Yitzhak Shamir's meeting with President Reagan on November 29, 1983, in Washington. An FTA was one of several initiatives the two leaders discussed to further strengthen and enhance strategic and economic cooperation between the United States and its only democratic ally in the Middle East.

The benefits of establishing an FTA could be substantial, especially for U.S. exporters. President Ronald Reagan predicts that the creation of an FTA:

> will launch a new era of closer economic relations between our countries. By substantially eliminating duties and non-tariff barriers between our nations, we will enable American producers to sell and compete in Israel while providing Israeli manufacturers unimpeded access to the free world's largest market.[1]

Trade between the two countries, presently about $3 billion annually, would increase significantly if there were no duties or other obstacles blocking companies from selling their goods and services. Investments by U.S. companies in Israel and by Israeli companies in the United States would multiply, with secure duty-free treatment as an added attraction. Joint ventures between U.S. and Israeli businessmen, each offering complementary skills and resources, would develop in the new atmosphere of economic cooperation. And the resulting network of interconnections between the two nations' economies would strengthen the commitment that the U.S. already has to Israel's survival and prosperity.

Other nations have banded together to form free trade areas or customs unions, but this would be a first for the United States. Israel has signed and is in the process of implementing a free trade area agreement with the European Community (EC), and the EC itself has a tariff-free union among its members.[2] But, for the United States, this would be a unique experiment, under highly favorable circumstances with very limited risks.

Israel is an attractive market despite its small size, traditionally ranking as the second or third largest importer of U.S. goods in the Middle East. Israel is import-dependent because it lacks almost all natural resources and raw materials and because its small size and population preclude a policy of complete self-sufficiency. Its total civilian imports currently comprise about $8 billion worth of goods and another $3 billion in services.[3] Of these imported goods, American exporters supply about 20 percent—a market share which could increase substantially under the stimulus of an FTA.

But without an FTA, the American share of the Israeli market will probably be reduced. This is because European countries will gradually capture a greater proportion of the Israeli market under their tariff reduction agreement of 1975. This provides for the reciprocal elimination of duties on all manufactured goods traded between Israel and the EC countries. It is now being phased in and, by 1989, the process will be complete. Without a similar free trade arrangement between Israel and the U.S., American exports will continue to be displaced by competing European goods made relatively cheaper by duty-free treatment. Already, the EC's share of Israeli imports has significantly increased—from 33:7 percent in 1980 to 40.9 percent in 1983.[4] This trend is expected to accelerate greatly in 1987, when many of the Israeli reductions to a zero tariff rate will occur.

The United States has always sold more goods to Israel than it has bought, a trend very likely to continue when an FTA is implemented. But without such an accord, the U.S. trade deficit will increase because of sales lost to competitor European firms enjoying duty-free access to Israel.

On the import side, the United States has little to fear from duty-free treatment of Israeli imports. First, under a variety of programs, over 90 percent of Israeli goods exported to the United States already enter duty-free.[5] Second, the Israeli economy is miniscule compared to the American colossus. Israel is the size of Massachusetts with a population comparable to Detroit's; its industrial labor force consists of only 300,000 persons, its total GNP in 1983 equal to about half of IBM's gross sales. Third, Israel is not a low wage country and does not have the capacity to flood the U.S. market with labor-intensive imports. Even with over 90 percent of Israel's goods currently coming in duty-free, they make up only one-half of one percent of total American imports.[6]

Israel, too, has much to gain from an FTA. While most Israeli goods already enter the U.S. duty-free, they do so under a system with a number of constraints and uncertainties. An FTA would assure a more stable and dependable framework for Israel's exports to the U.S. market—Israel's largest single trading partner—and the one with which she has the strongest political and strategic bonds. The Arab boycott, which denies to Israel natural trading partners in many parts of the world, makes her particularly vulnerable to changes in the import duties and policies of her principal trading partner.

Moreover, trade is the backbone of Israel's economy. Almost 50 percent of Israel's gross national product (GNP) is exported, and imports in civilian goods and services alone are equivalent to more than 60 percent of GNP.[7]

Because Israel is so trade-dependent, it makes good economic sense to eliminate as many barriers to trade as possible. Eliminating barriers will allow Israel to exploit fully its comparative export advantages, while allowing imports—so necessary to its existence—to come in steadily on a duty-free, and therefore cheaper, basis. An FTA also has the potential to help Israel in its struggle against two major economic problems: its growing balance of payments deficit, and mounting external debt. In addition, it will help counteract some long-term obstacles Israel must contend with such as the Arab boycott.

To one not familiar with these considerations, tiny Israel's interest in an FTA with the powerful American economy might seem surprising. While most small countries are looking for safety behind protectionist barriers, Israel is asking for a chance to compete fairly and openly, accepting the responsibilities and risks of two-way free market competition. This self-confidence may seem odd to those not aware of the many achievements of the Israeli economy, but who have recently heard a great deal about its problem areas. Israel, however, is a country which in its brief 36 years of statehood has transformed itself into a thriving, modern nation, concentrating increasingly on high technology goods and services. The transformation was made possible by utilizing the one resource with which Israel is well-endowed: a relatively small but educated, highly skilled and motivated work force.

Israel is making a supreme effort to reduce its dependence on foreign aid by increasing its exports. The effort is beginning to show results. Aid was the equivalent of 53 percent of Israeli exports in 1976; by 1984 it will decline to about 23 percent. Aid in 1976 also constituted 18 percent of Israel's gross national product; in 1984, it is expected to comprise only 6 percent—a two-thirds reduction.[8] This has been achieved despite the petrodollar-fueled arms race, and during a period when Israel has had to absorb additional yearly costs of half a billion dollars, to replace the oil surrendered when the Sinai was relinquished to Egypt.[9]

This healthy trend toward a reduced role for foreign economic assistance can only be sustained if the Israeli economy can continue to grow. And because Israel has such a limited home market, economic growth must be fueled by external trade.

The following chapters explore in greater detail the costs and benefits which would ensue from a U.S.-Israel FTA. Chapter 2 focuses on the United States, including the impact of an FTA on American companies, workers, and consumers, and on U.S. policy objectives. Chapter 3 examines the impact on Israel: how an FTA would fit into Israel's economic plans, generate foreign investment, and help over the long term to foster economic independence and efficiency. Chapter 4 addresses those concerns that have been raised about the FTA: sectors claiming high import sensitivity which may seek exclusion from the FTA, and such thorny issues as what to do about export subsidies which might give an advantage to exporters of one country. Chapter 5 sets forth the principal conclusions on how a U.S.-Israel Free Trade Area would produce strong gains for both sides, greatly outweighing the risks and costs.

Chapter 2
Gains for the U.S.

The U.S.-Israel Free Trade Area promises to have real economic advantages for the United States. These advantages can be categorized as: increased U.S. industrial exports and related job creation; an increase in the already sizable U.S. agricultural exports to Israel; attractive investment and joint venture opportunities for U.S. companies in Israel's high technology industries; a lowering of the price of Israeli goods sold in the U.S.; enhancement of America's trade in services, a sector of growing importance to the U.S. economy; and a favorable impact on America's wider policy objectives.

Impact on Exports

Israel is a strong market for U.S. products, buying $1.7 billion worth of American-made civilian goods in 1983.[10] But there is considerable room for increasing that amount, as the United States currently accounts for only 20 percent of Israel's non-military imports, a market share only half that enjoyed by the EC. American-made products enjoy an excellent reputation in Israel, and the Israeli public would purchase more U.S. goods if they were priced competitively and readily available. With duty-free treatment ensured by an FTA, American goods could dramatically increase their share of the Israeli market.

Conversely, without an FTA, American-made products will face new difficulties as Israel's tariff-reduction agreement with the European Common Market comes fully into effect. If the EC nations enjoy duty-free trade but U.S. products remain subject to tariffs, a substantial price differential will be created and U.S. exports could suffer accordingly. Israeli tariffs average about 10 percent[11] and in some product categories they are substantially higher than that. Moreover, the ultimate price effect of tariff differences is still greater at the retail level because purchase taxes are added on the basis of the total cost of an item including the customs duty.

So the stakes for the U.S. in the FTA issue are real. Using Department of Commerce export-related employment estimates, 40-50,000 jobs in the United States are currently generated by exports to Israel. An increase in the U.S. market share to 40 percent would generate an additional 40,000 U.S. jobs, while a decline to 10 percent would mean a loss of 20,000.[12] Action taken now on the FTA could have a decisive effect on which direction this trend moves for some time to come.

It may even be the case that an FTA would have greater immediate advantages for the U.S. than for Israel. Almost half of U.S. exports to Israel are now subject to duties, while only about 10 percent of Israeli exports to the U.S. face tariffs. Moreover, Israel's tariff rate is about twice the level of U.S. tariffs.[13] A shift to free trade will therefore offer proportionately greater and more immediate advantages to U.S. exporters than to their Israeli counterparts.

This has been the case for Israel and the EC to date. Even though many of Israel's tariffs on European manufactured goods have not yet been totally eliminated, the EC continues to enjoy a trade surplus with Israel. In 1982 Israel ran a $1.2 billion trade deficit with the EC, which increased to $1.5 billion in 1983.[14]

Who Will Gain?

American goods imported by Israel run the gamut of almost everything produced in the U.S., from grains ($61 million in wheat, $51 million in corn, and $55 million in other cereals in 1983) and soybeans ($100 million) to $1 billion in machinery and transport equipment.[15] The major dutiable U.S. industrial exports to Israel include: motor vehicles and vehicle parts, paper, electrical measuring apparatus and other measuring instruments and parts, medical instruments, chemicals, textiles (especially synthetic yarns), metal products, industrial tools, bolts/nuts/screws, steam generating equipment, engine parts, refrigerators, light transport vehicles, construction equipment, machine parts, taps/cocks/valves, electrical goods and appliances, and telecommunications equipment.[16]

Many of these U.S. exports face a competitive market sensitive to price changes and the elimination of Israeli tariffs on them could have a significant effect on the U.S. market share. A survey of tariff effects on specific products suggests that a Free Trade Area could be particularly promising for U.S. exports of the following products to Israel: computers and office machinery, telecommunications equipment, electronics, wood and wood products, furniture, paper and paperboard products, motor vehicles, iron and steel products, tools of base metals, appliances, textiles and apparel, alcoholic beverages, tobacco, medicine and pharmaceutical products, and polymers.[17]

The survey of how a Free Trade Area might affect U.S. exporters of these products is given in full in the Appendix. To illustrate, let us take five products: computers and office equipment, motor vehicles, wood, textiles and polymers. These products, discussed in detail in the Appendix, all face significant tariff barriers in Israel. In addition, most of these U.S. export industries face tough competition from the EC, which will enjoy complete duty-free access to Israel by 1989. With a U.S.-Israel FTA, however, American and EC exporters will compete on a level playing field for the valuable and growing Israeli market.

Israel is a rapidly expanding market for *computers and other office machinery,* with imports reaching $213 million in 1982. In fact, Israel is second only to the United States in per capita use of computers, and a new cycle of computerization is now underway.[18] In 1982, half of Israel's computers and office equipment came from the United States. But early in 1984, Israel's tariff on computers was reduced by 50 percent for products coming from the EC as part of the Israel-EC free trade agreement, and U.S. firms are now in danger of losing their strong market presence in Israel. As the chairman of the Federation of Israeli Chambers of Commerce recently noted,

> In many cases the American products like office equipment are clearly superior. But we buy European because duties on American goods make the European imports cheaper. The 'zone' deal would cause a gradual switch to American goods.[19]

Motor vehicles is another area where there could be U.S. gains. Israel depends upon imports for nearly all of its transportation needs, but the vehicles are heavily tariffed, with duties ranging from about 20 to 46 percent. In larger passenger cars, the U.S. accounts for about 20 percent of Israeli imports, with another 50 percent coming from West Germany. When West Germany, as an EC country, receives duty-free treatment on these vehicles in 1989, the share the U.S. now has could be further eroded, unless the FTA is established.

Israel imports large quantities of *wood, wood products, and paper products,* $230 million worth in 1982. But Israel's import market is dominated by European countries. The tariff on these products is in most cases very high: for example, 35 percent for pine and evergreen. Since Israel's principal suppliers are non-EC countries like Finland and Yugoslavia (which will not enjoy reduced tariffs under the EC-Israel agreement), a U.S.-Israel FTA would give U.S. exporters in the Pacific Northwest a tremendous tariff advantage over their major competitors and thus an opportunity to increase significantly their wood and paper exports to Israel.

Another example of an industry likely to gain from a U.S.-Israel FTA is *textiles and apparel*. Of the $227 million worth of dutiable textiles and apparel Israel imported in 1982, only $35 million, or 15.4 percent, came from the U.S., while over half of such imports came from four EC countries: West Germany, Italy, United Kingdom, and France. These EC members benefit from reduced textile and apparel tariffs as a result of the phasing in of the EC-Israel free trade agreement and by 1989 will enjoy full duty-free access to the Israeli market. But a U.S.-Israel FTA would allow American producers to compete on the same terms as their EC counterparts and would provide an opportunity to increase the U.S. share of Israel's valuable import market. This is especially the case for synthetic fibers and materials—an area in which the U.S. industry is most competitive and Israel's tariff is relatively high.

Polymers, which are chemicals used in producing plastics, represent another likely prospect for U.S. export expansion under a U.S.-Israel FTA. Israel imports a significant amount of polymers ($75 million worth in 1982), but the EC—favored by lower tariffs—commands the lion's share (over 70 percent) of sales to Israel, thus crowding out U.S. suppliers. If U.S. exporters continue to face tariffs ranging as high as 25 percent for these products when tariffs for EC exporters drop to zero, America will all but lose this market. Conversely, under a U.S.-Israel FTA the U.S. should be able to increase significantly its exports of polymers to Israel.

These are but a few examples of the many industries for which a U.S.-Israel FTA will provide an opportunity for increased exports to the significant and growing Israeli market.

Impact on Agriculture

In agriculture, as well, U.S. exporters could gain from an FTA.

During the last few years, U.S. exports of agricultural products to Israel have been six to eight times as great as U.S. agricultural imports from Israel. Although a relatively small country, Israel imports about $300 to $400 million worth of agricultural products from the U.S. alone.[20] This is because Israel is scarce in land and water resources, and finds it more efficient to buy basic foodstuff and feedstuff, such as grains and soy products, from a mass agricultural producer like the United States. Israeli poultry, fruit and vegetables are grown for local consumption and for export. But most of the exports are and will continue to be oriented to Europe, because such goods are perishable over long distances, costs of transport to the EC are much lower, and European growing seasons are complementary with Israel's. In addition, Israel has already established extensive marketing facilities in Europe.

Since the EC-Israel FTA does not cover agriculture extensively, eliminating Israeli duties for U.S. agricultural products could give American producers a distinct competitive advantage. Dutiable U.S. agricultural exports to Israel which would be positively affected by an FTA include: wood, tobacco and tobacco products, beer and other alcoholic beverages, some processed fruit and vegetables, certain processed grain and mill products, coffee, other beverages, and jams and jellies. In addition, some Israeli non-tariff barriers would be gradually eliminated, such as import licensing and subsidies. Thus, U.S. agriculture as well as manufacturing industries will gain from an FTA. Meanwhile, there is little to fear on the import side because of Israel's extremely small size, its limited resources such as land and water, and its inability to greatly increase production capacity.

Investment, Joint Venture Opportunities

Other areas for potential U.S. gains from an FTA are investment and joint research and development (R&D) opportunities. Many U.S. firms, especially those in the high technology fields, are discovering the benefits of establishing research and manufacturing centers in Israel. Israel has one of the highest per capita ratios of scientists and engineers in the world and is striving to increase that number. In addition, there is a steady influx of highly skilled professionals migrating to Israel from other countries.[21] So, although Israel is not a cheap labor enclave, the country does offer a diversified and technically skilled labor force at reasonable wages.[22]

For example, using American-made computer components and irrigation equipment, technicians at Motorola-Israel Ltd. discovered a need for computerized irrigation systems in the U.S., and developed applicable technologies to fill that need. Motorola in the U.S. accrues substantial profits as this system has become one of Motorola-Israel's principal products and major sellers in the U.S., Israel and internationally. As a result, Motorola's counterpart in Israel has become the company's most profitable subsidiary. With an FTA, the tariffs on parts and products traded between the American parent company and the Israeli subsidiary would be eliminated, making this item much more competitive in all markets. Motorola-U.S. would profit considerably, with the potential positive side effect of creating more jobs, since greater quantities of components and parts would have to be produced.[23]

American managers are discovering that research and development projects conducted in Israel can be done less expensively and more quickly than in many other countries. Israeli officials suggest that although salary levels are comparable to those in Europe, Israeli technical people are accustomed to working with smaller budgets, and under tighter time constraints.[24] Moreover, because of Israel's defense situation—that of being surrounded by well-armed adversaries at a high level of readiness—Israel has developed a rapid response R&D capability in defense-related high technology areas. This attitude of preparedness in defense R&D has an important spillover effect on civilian R&D as well.

A number of U.S. firms, especially in the high technology field, have already chosen to invest in Israel to take advantage of the duty-free export of Israeli products to the European Community.

Impact on Prices

While Israel even with an FTA will be selling only a modest amount of goods in the U.S. because of its small size and industrial capacity relative to the U.S., those goods in which it does enjoy a comparative advantage will over time be more readily available and at lower prices. This is because companies in Israel will gear up to take advantage of the FTA and the economies of scale possible when selling to a larger market.

If the FTA between the U.S. and Israel is successful, it may stimulate other countries to consider the benefits of trade liberalization. In that case, the benefits to consumers of expanded free trade would be even greater.

Impact on Trade in Services

There has also been discussion of including an agreement relating to free market access for *services* as well as goods as part of an FTA. Services play a growing role in the U.S. economy, accounting for two-thirds of U.S. gross national product and 70 percent of U.S. employment. Of the 20 million net new jobs created by the U.S. economy in the 1970s, 90 percent were in services. Included in services are such fields as information and communications, data processing, banking, insurance, tourism, and advertising.[25]

The United States is also the world's largest exporter of services. Many countries, however, have attempted to prevent entry of services provided by U.S. companies in these rapidly growing fields. The U.S. has found it difficult to fight such barriers because the international trade rules of the General Agreement on Tariffs and Trade (GATT) are applied basically to goods, but not services. Therefore, it is important to the U.S. to achieve recognition that non-tariff barriers should be eliminated in services as well as goods.

The U.S. government plans to include an agreement in the U.S.-Israel FTA that each country will treat the other's services exports in a non-discriminatory and open fashion. The FTA will thus be an important step toward free trade in services, a matter of considerable importance to the U.S. role in the world economy.

Impact on Trade Negotiations

For a number of years the U.S. government has pursued the idea of multilateral trade liberalization, with the hope of reducing foreign barriers against U.S. exports. But since the end of the Tokyo Round of the Multilateral Trade Negotiations (MTN) in 1979, there has been little concrete progress. The U.S. government has been seeking, although without great success so far, an expansion of the GATT—the principal set of rules governing international trade. The U.S. seeks greater GATT coverage of trade in services, investment, and agriculture, and improvements in the current system of safeguards and dispute settlement.

However, the U.S. government's drive toward expanding GATT's coverage has been slowed by unwilling trading partners. Therefore, the Administration sees the bilateral free trade accord with Israel as setting a good example to the world on the benefits of free trade, perhaps stimulating broader interest in another worldwide trade liberalizing negotiation like the MTN.[26]

An FTA also fits in nicely with the current move toward reciprocity in U.S. trade policy. Many members of Congress, responding to their constituents' concerns, have begun demanding that the U.S. should be only as open to other countries' products, as those countries are to American goods. Many reciprocity-type bills have been introduced in Congress. Therefore, an FTA appeals to many Americans, not only because they strongly support and identify with Israel's struggle, but also because it would be a totally reciprocal tariff-cutting agreement. Such an accord would also appeal to the American sense of fair play.

Geo-strategic considerations play a similarly important role. The Reagan Administration has begun to recognize the need to foster greater military and strategic cooperation with the United States' only dependable, stable, democratic ally in the Middle East. But forging a strategic alliance has also heightened Administration concerns about Israel's economic health. There are growing worries about the Israeli economy: the triple digit inflation, the balance of payments difficulties, and the high external debt (much of it owed either to the U.S. government or American citizens holding Israeli bonds) compared to the small size of the Israeli economy. Helping Israel to increase its exports, stimulate foreign investment, and restructure its economy in the process, is now recognized as an increasingly attractive solution, especially if over the long term it could have the effect of decreasing Israeli dependence on U.S. foreign aid. Similarly, encouraging Israel's innovative, high technology exports would strengthen Israeli defense-related industrial capabilities, and contribute important technological know-how to the U.S. in certain select fields where the Israelis are among the best in the world.

From both countries' perspectives, one of the great attractions of an FTA is that it would strengthen the bonds of friendship between them by augmenting their economic/commercial ties. For the United States, this is important for moral as well as strategic reasons. Poll after poll has shown that Americans feel a special affinity for and attachment to the country of Israel, because of shared democratic and Judeo-Christian values. The closer commercial ties that an FTA would bring would be a natural extension of the strategic, moral and political affinities the two countries share.

Chapter 3
Gains for Israel

To understand the impact of an FTA on Israel, it is important to begin with the basic obstacles that the country must confront. These consist of six factors comprising, individually and collectively, some of the most difficult conditions confronting any nation in the world. First, there is the fact that Israel is a tiny land almost barren of natural resources, forced to import raw materials, fuel, and many foodstuffs to survive. Trade is Israel's lifeline, and massive import dependence is inescapable. But second, Israel's search for export markets to achieve a balance of trade is impeded by the Arab economic boycott, which denies to Israel many export opportunities it would otherwise enjoy. Israel must therefore, of necessity, concentrate its trade on the relatively small number of countries which remain open. Third, Israel must keep pace with an arms race fueled by Arab petrodollars, in which the arms expenditures of its enemies are twice Israel's entire GNP and seven times its own defense expenditures.[27] Fourth, as a nation of immigrants, Israel has had to build an entire economic infrastructure in a single generation, paying for housing, roads and schools for a million refugees—more than one third of its population—absorbed in a very compressed period of time. Fifth, Israel has had to absorb the cost of some self-imposed obligations, like the half-billion dollars a year it pays for oil previously obtained from the Sinai oilfields, the additional costs of relocating the Sinai air bases to the Negev, and the cost of maintaining full employment to assist the "ingathering of the exiles" that is the state's very reason for existence. And sixth, the combination of the arms race, the structural imbalance of trade and the accelerated development of infrastructure, have saddled Israel with an enormous foreign debt, the service of which forces the nation to seek additional markets for exports.

The accumulated effect of these stresses is showing today in Israel's hyperinflation and some other well-known symptoms. But it is important to see the strengths as well as the weaknesses, and to put the problems in perspective. Israel is, in spite of the odds, one of the great success stories of economic growth and development in the post-war world, and it has a record of making economic strides at a pace that few countries have achieved. A nation of impoverished immigrants returned to a land almost barren of natural resources and, within a few short decades, built agricultural, industrial, and service sectors comparable in their level of development to much of Europe. A million apartments were built in twenty years (while Egypt, with ten times the population, built less than 100,000);[28] a flourishing state-of-the-art technological base was established; a highly educated labor force was developed; and industrial production advanced at a faster rate than all but a few countries in the world. After a mere three decades, Israel has moved from a land of scarcity to a modern, thriving economy, as witnessed by any recent visitor to the Jewish state. And this remarkable development was achieved primarily by the hard work and entrepreneurship of the people themselves, in an economy that rewards free and intelligent enterprise.

Israel's Economic Future

Despite Israel's considerable economic achievements, it will continue to face the severe structural burdens already outlined. There is, however, one long-term prescription for lightening these burdens that Israel's economic planners have devised and that Israel's political leaders—across the spectrum—have endorsed. It is an export-led recovery. Israel's planners and decision-makers understand that Israel's economy depends upon trade and that a resource-poor country as small as Israel which is not allowed to trade with its neighbors simply cannot survive by hiding behind protectionist barriers while producing exclusively for the local market. Moreover, growth can only come from greater industrialization but because of Israel's size, the metamorphosis of its economy from an agricultural base to a diverse industrial base requires an ever larger export market.

With exports therefore constituting the very foundation of Israel's economic future, its planners must emphasize the nation's comparative advantage in international markets. This advantage lies in Israel's human resources and the high-technology goods that they can produce. Accordingly, Israel must restructure its economy in order to compete effectively in the high-tech markets of the United States and Western Europe. To be successful, however, Israel must gain free access to these markets. Free trade agreements are the vehicle for achieving these objectives. In seeking agreements, Israel is demonstrating its understanding that the price of entry to other markets is a willingness to open up its own market to imports from other countries.

There is good reason to believe that this high-tech, export-oriented growth strategy will succeed. Israel has already been remarkably successful in shifting the emphasis of its exports away from its traditional agricultural and diamond sectors to the new science-based, high technology sector. Science-based exports have grown from an estimated $40 million in 1973 to $1.4 billion a decade later.[29] Moreover, there is great potential for expansion. Israel has a large pool of scientists and engineers to draw upon, outstanding institutes of higher learning and a well-established research infrastructure. Three thousand science and engineering majors graduate annually from the universities and the Technion. Thousands more are discharged from the armed forces every year after gaining intensive technical training during their services and there are some 75,000 students enrolled in the country's technical and vocational high schools.[30] There is also a steady influx of skilled professionals migrating to Israel and a potential source of further skilled manpower among Israeli scientists and engineers now living abroad.

Israel's comparative advantage in human resources is enhanced by the heavy investment its government makes in defense-related R&D. This provides spin-offs for civilian product development in much the same way as NASA's space program has generated commercial innovations. Moreover, Israel's defense R&D places a premium on rapid response to technological innovations introduced by the country's Arab adversaries as they acquire the latest weapons from the world's leading arms manufacturers. This has an important spill-over impact on civilian R&D by encouraging flexibility and placing a premium on time. Similarly, Israel's austere economic environment has habituated Israeli technicians to working with smaller budgets.

Already these factors have manifested themselves in a variety of high-tech innovations developed by Israel's technical workers in the fields of medical electronics, agrotechnology, fertilizers and pest controls, fine chemicals and biogenetic products, telecommunications, robotics, electro-optics, solar energy, and computers. Since 1975, the export of locally developed high-technology products has increased at an extraordinary average annual rate of 18 percent.[31]

Free trade agreements will help Israel to continue this restructuring process. Indeed, the results of the trade agreement Israel has already negotiated with the European Community provide testimony to the success of this strategy. In 1975, when the free trade pact with the EC was first signed, the agricultural sector contributed 35 percent of Israel's exports to Western Europe, compared to 27 percent from diamonds and 38 percent from the industrial sector. By 1980, the composition of Israeli exports to the EC had dramatically shifted to only 24 percent from agriculture, 19 percent from diamonds and 57 percent from industrial goods. Moreover, total Israeli exports to the EC tripled in the same time period, while imports from the EC grew by 63 percent.[32]

This positive experience bolsters Israel's confidence as it contemplates the risks of entering into a free trade agreement with the United States. Israel's small economy could easily be swamped by the duty-free output of the world's largest industrial power. In the short-term, Israel's export-oriented industries may not yet be in a position to compete effectively. However, the risks to Israel are mitigated by two considerations. First, Israel imports many goods which are not manufactured locally so a number of domestic industries will be unaffected by increased imports in these sectors. Second, as Moshe Semadar, head of Israel's Foreign Trade Administration, has observed, sectors of the Israeli economy have already been exposed to duty-free competiton from the European Community: "In some cases, the blast of competition is already maximal, meaning that the addition of American suppliers will make no difference."[33]

Nevertheless, other sectors will undoubtedly face short-term adjustment problems as they become exposed to competition with larger and more efficient U.S. firms. Israel, after all, is in some respects still a developing country with a small and fragile economy. It was this consideration which lay behind the agreement to phase in duty-free access for the European Community, with free trade in all areas only taking effect in 1989. For the same reason, Israel may need a gradual phasing-in period for an FTA with the United States in order to allow some of its industries time to adjust to the rigors of free competition with the American industrial colossus.

These short-term adjustment problems, however, will be outweighed by the longer-term benefits of a restructured, more efficient and more competitive economy. Greater foreign competition will force Israeli manufacturers to improve productivity or shift their resources into production which utilizes their comparative advantage. In general, this means shifting resources away from less-productive areas—including the public sector—and into high technology, R&D intensive production as well as taking advantage of technological innovations in the more traditional export sectors. In particular, it means concentrating on export markets where demand is not being met by producers in Europe and the United States. With its small size and limited manpower, Israel cannot hope to compete in mass-produced items where economies of scale are important. Instead, Israel will have to carve out special niches by developing high-tech systems designed for specific applications rather than components that can be mass-produced for more wide-ranging uses. For example, Israel has already succeeded in developing for export such original products as small, special purpose computers, solar energy systems, desalination equipment, and three-dimensional X-ray instruments.

In short, Israel's economic hopes lie in export-oriented growth, in becoming one of the leading specialized high-tech producers for the Western industrialized world. A U.S.-Israel Free Trade Area agreement will enable Israel to get on with the job.

Israel's Trade Deficit and the FTA

A U.S.-Israel FTA will also assist Israel in coping with its growing current account deficit which, in 1983, had risen to $5 billion.[34] This excess of imports over exports is largely the product of two abiding problems which confront Israel: the requirement to spend large amounts of foreign currency on defense imports; and the high cost of Israel's oil imports.

Israel's defense burden is enormous compared to other nations. In recent years, almost 30 percent of Israel's GNP has been devoted to defense with almost half of this amount spent on direct imports of defense equipment.[35] Israel is still coping with the staggering costs of the 1973 Yom Kippur War which lasted only three weeks but which cost the equivalent of an entire year's GNP.[36] Moreover, to ensure that Israel would never again be caught by surprise, the size of Israel's army greatly increased, as did defense procurement. Between 1968 and 1973, Israel was forced to devote a significant 22 percent of its GNP to defense, with nine percent going to defense imports. But after the 1973 war, defense expenditures grew to a massive 33 percent of GNP.[37] For the past five years, Israel has had to spend on average some $1.5 billion annually on direct defense imports.[38] This bill cannot be significantly reduced without jeopardizing Israel's basic security. Indeed, Israel's defense imports are expected to grow during the next five years in a desperate effort to maintain the military balance against Arab states who are spending vast fortunes on arms procurement. This will increase Israel's dependence on American military aid and it will also place further stress on the balance of payments. A growing export market, made possible by the FTA, will help to counterbalance these adverse developments.

The other major factor contributing to Israel's balance of trade deficit is the country's huge oil import bill, which amounted to $2 billion in 1982. On its own, oil accounted for almost one-quarter of Israel's costs for imported civilian goods.[39] This problem was greatly compounded by Israel's relinquishment of the Sinai oil fields to Egypt in exchange for the Israel-Egypt peace treaty. Were it not for the loss of these fields, most of which Israel itself developed, Israel would now be far along the road towards energy independence.[40]

Beyond these two structural burdens lies the third more general problem: Israel must maintain a high level of imports, due to its dependence upon imported raw materials and semi-finished products as inputs for its finished manufactured goods. Consequently, Israel expects a steady increase in its imports even as its exports grow. Free trade agreements with the world's two largest markets, however, do make it possible for Israel to significantly increase its exports. This, in turn, will enable Israel to cut back its balance of trade deficit to more manageable proportions. Indeed, with only limited preferential arrangements, Israel's exports grew by an impressive 18 percent a year in the period from 1950 to 1976.[41]

Israel's External Debt and the FTA

Like many other developing countries, Israel's external debt has been growing. In 1970, Israel's total foreign debt was $2.6 billion; then it jumped to $11 billion in 1977, and $21 billion in 1982.[42] When this amount is compared to the small size of Israel's GNP, the growing seriousness of the problem becomes apparent. In 1970, the foreign debt was equivalent to about half of Israel's GNP; last year, it was roughly equal to the entire GNP. This is said to be the highest debt per capita of any country in the world.

Such statistics, however, need to be placed in perspective. According to Israel's Minister of Industry and Trade, Gideon Patt, out of an external debt of about $22 billion, 70 percent of that is not commercial debt, but is rather owed to the U.S. government and to the Jewish people. Only 25 percent is owed directly to commercial banks, and only about half of this is real short-term debt.[43]

Moreover, Israel's debt servicing as a percentage of its exports was only 24 percent in 1982, compared to 87 percent for Brazil, 103 percent for Argentina, and 59 percent for Mexico.[44] Nevertheless, the sheer size of the debt is disturbing, and with high U.S. interest rates, the debt servicing will continue to be a problem for Israel. It also constitutes a drain on Israeli resources as long as the economy does not grow at least as fast as the debt. In 1982, there was no increase in Israel's GNP and 1983 showed only a marginal increase. Israel's annual debt servicing to the U.S. government was estimated at over $1 billion in 1983, an amount exceeding economic aid approved in recent years,[45]—money which could have been used for productive real investment instead.

If Israel could increase its exports at a faster rate than its debt servicing payments, the country would need less foreign aid from the U.S. in the future. This would be an economically healthy development, from the point of view of both the Israeli debtor and the U.S. creditor. By helping to boost Israel's exports, the FTA will contribute to the country's efforts to bring its debt burden under control.

The Arab Boycott and the FTA

Another problem Israel faces is the Arab boycott—the unrelenting economic warfare waged by the Arab League against Israel for almost four decades.

Declaring as early as December 2, 1945, that "Jewish products and manufactured goods shall be considered undesirable to the Arab countries," the League called for Arab individuals and institutions to "refuse to deal in, distribute, or consume Zionist products."[46] And, to this primary boycott, the League has added, over the past thirty-nine years, secondary and tertiary boycotts. Under the secondary boycott, the twenty-one countries who are members of the Arab League deny business to firms which themselves have business relationships with Israel. Under the tertiary boycott, they even attempt to prohibit firms with whom they conduct business from dealing with other firms that are on the blacklist because of their relationship with Israel.

As a practical matter, the Arab countries have found it difficult to enforce compliance with provisions of the boycott. But the boycott has inhibited Israel's trade, particularly with her Arab neighbors. This regional trade, which might under normal conditions be quite substantial, is in fact kept to a trickle. Some goods enter Jordan and Lebanon quietly, but these countries are under continuing pressure from the Arab League to detect and prevent the flow. Even Egypt, which under the terms of its peace treaty with Israel pledged to normalize commerce, restricts trade to a bare minimum and discourages economic cooperation.

Beyond their own markets, the Arabs are successful in denying Israel opportunities in the markets of some third countries as well. Non-Arab Islamic countries, African nations seeking Arab aid, and others seeking petrodollars, a secure source of oil, or Arab voting support at the United Nations, often defer to Arab wishes when considering trade with Israel.

Others, like France and the United States, have passed anti-boycott legislation, making it unlawful for companies to participate in this economic war against the Jewish nation. But even in these countries, some business still is denied to Israel because companies fear that they will be affected by the Arab blacklist and lose contracts in the lucrative markets of the Arab world.

A U.S.-Israel Free Trade Area will not in itself reverse these negative effects of the Arab boycott, but it will make a major contribution to the effort to end this treatment of Israel as an economic pariah. First, by expanding Israel's trade with the United States, it will help Israel to hurdle the barriers imposed by the Arab League's trade boycott. More significantly, however, it will undermine the psychological barriers established by the boycott. The success or failure of any boycott depends largely on psychology—on the expectations in the mind of each actor as to what the others will do. Once violations of a boycott become routine, it is difficult to single out non-complying firms for punishment and retribution. A U.S.-Israel FTA will vastly multiply the numbers and types of companies, contracts, and contacts involved in trade between the world's largest economy and Israel. The FTA will therefore substantially complicate the work of the Arab League boycott offices and assist in demonstrating the impotence of this economic weapon. In these ways, the FTA will help Israel progress towards economic health and independence while further discrediting Arab rejectionism.

Foreign Investment

Critical to any increase in Israeli exports are foreign investment and international partnerships. Israeli firms are primarily small and relatively young. They lack both the marketing know-how and financing necessary for selling to far-off, sophisticated markets like the United States. The ideal situation is for an Israeli company to enter into a partnership with a U.S. multinational firm, whereby the research and development and specialized manufacturing is conducted in Israel, and then the final product is marketed around the world by the U.S. partner. Such a partnership would be profitable for both sides: the U.S. firm would enjoy the high profit margins that come with marketing goods, would benefit from high-quality, lower cost R&D activities, and could gain easy access to the European market with duty-free Israeli goods. The Israeli firm benefits from the infusion of fresh capital and the marketing of its products by a larger, more experienced company with worldwide connections.

Many of Israel's biggest success stories have come from such partnerships with U.S. firms. For example, Biotechnology General (BTG) was founded in late 1980 by American and Israeli investors, combining U.S. venture capital with Israeli technology in the new field of genetic engineering. BTG has already grown from a staff of three persons to a company employing more than 70 researchers, scientists, and engineers. Another example of high tech partnerships is Laser Industries, which produces surgical laser systems and accessories for surgery. While headquartered in Tel Aviv, the company's products are both assembled and marketed in the U.S. by its American subsidiary, Advanced Surgical Technologies Inc.[47]

Recently, a $130 million investment was made by Intel, and a second plant is being opened in Israel to manufacture silicon wafers.

Also, National Semiconductor is opening a new microcomputer chip plant in Israel.[48] Lately, American corporate interest in investing in Israel has been particularly strong partly because of the ongoing negotiations on the U.S.-Israel FTA.[49]

Although freedom of access to two major world markets—the U.S. and the EC—is a strong drawing card, in itself it is not enough of an inducement for a company to take the time, trouble, and expense to invest in a far-off, foreign country. But if a multinational is already looking for an overseas site to establish a high technology enterprise to produce for the world market, the promise of duty-free access could become the deciding factor when choosing among several different countries.

Although Israelis are engaged in a greater volume of trade with the Europeans, over 150 U.S. companies have joint ventures or wholly-owned subsidiaries in Israel.[50] As one Israeli official said, "In terms of the mobilization of capital and labor, we are closer to the U.S. than to the European Community. Israelis are always coming and going to the U.S., we have more joint ventures together, and we have strong mutually beneficial relations through institutions like the BIRD Foundation." Another Israeli official observed, "we're not always sure the Europeans like us. There are sometimes political complications which cloud the commercial relations."[51]

Israelis particularly hope that American firms will increase their investments and partnerships with Israeli firms in the coming years. A U.S.-Israeli FTA will facilitate such cooperative endeavors.

Why Present Duty-Free Access is Insufficient

In discussions of the advantages to Israel of a Free Trade Area with the United States, some observers question whether an FTA would not merely duplicate the present duty-free arrangements Israel now enjoys in the American market as the result of a U.S. trade program for developing countries known as the Generalized System of Preferences (GSP). The FTA, however, would hold several advantages for Israel in comparison with the present GSP and is therefore worth the high cost Israel must pay for the FTA: (1) It would be a more secure arrangement than the GSP, which faces an uncertain prospect of renewal when it expires in 1985; (2) It would not be subject to "competitive need" limitations[52] that automatically cut off duty-free benefits when imports under GSP reach a certain level; (3) It would be more comprehensive, including product categories that are excluded from the GSP; and (4) It would give Israel permanent access to the U.S. market, while its qualification under GSP applies only as long as it is categorized as a less developed country.

Israel and other countries have benefited greatly under the GSP and the program should be renewed in 1985. For the short-term, GSP remains critical to Israel's economic development. The FTA is still being negotiated, its terms and scope still unknown, and it is likely to be phased in over a period of years. Therefore, as an interim measure, Israeli exporters will continue to rely on the GSP. A Free Trade Area, however, is better suited to Israel's long-term economic plans and, as such, is worth the heavy costs Israel must bear in comparison with the one-sided benefits the U.S. grants Israel under the GSP.

In short, through the negotiation of an FTA with the United States, Israel is seeking a means to tap its national energy and human resources in order to stimulate sustained, export-led growth. This will help Israel to restructure its economy and increase its productivity. In the process, the FTA will assist Israel to ease the balance of payments pressure, bring its external debt under control, lessen dependence upon foreign aid and generate the employment necessary to achieve the nation's social objectives. To achieve these benefits, Israel is willing to accept some calculated risks: the risk of free competition with an economy many times larger than its own; the risk of competition with foreign firms enjoying economies of scale which Israeli manufacturers cannot hope to achieve; and the risk of laying down the shield of tariff protection behind which many other small nations typically seek their economic security. It is because they believe in themselves and in the basic health of their economic institutions that the people of Israel seek the opportunity to compete openly and fairly in the context of a Free Trade Area.

Chapter 4
The Counterarguments

Since work began toward the establishment of the U.S.-Israel FTA, there have been a number of Congressional and inter-agency hearings at which some concerns and counterarguments have been raised. Primarily, these have been concerns about a particular Israeli product being imported duty-free and the impact this would have on the U.S. industry producing a comparable product. There have also been concerns raised about alleged Israeli subsidies; about the possibility of third countries shipping their products to Israel in order to obtain duty-free treatment in the United States; and about a U.S.-Israel FTA being the precursor to a whole series of free trade agreements, some of them less advantageous to the U.S. than the one presently being negotiated with Israel. In addition, some have worried that because of a record high U.S. trade deficit, it is not an opportune time to consider American trade liberalization. But a closer examination of these concerns and counterarguments reveals that they are without foundation.

Individual Product Exclusions

Some specialized industries have expressed concerns about competition from Israeli producers. Most of these groups express support for the general concept of a U.S.-Israel FTA, but request that their particular product be granted a special exemption from having their tariff protection eliminated.

Among agricultural groups, representatives of the American processed tomato, citrus juice, dehydrated garlic and onion, olive and cut roses industries have publicly testified against inclusion of their products in an FTA before inter-agency trade policy committee and Congressional hearings.

From industry, similar requests for exclusions have come from representatives of textiles and apparel, footwear, jewelry, and bromine industries.

From some of the testimony, one might conclude that the United States is a poor, tiny, fragile country and that Israel is one of the world's agro-industrial giants. Of course, the true situation is quite the reverse. The U.S. has a three trillion dollar economy, currently experiencing one of the highest rates of growth of any industrialized country in the world.

In agriculture, the annual value of U.S. agricultural exports to Israel is usually six to eight times the value of what Israel sells to the United States. For example, according to U.S. Department of Agriculture estimates, in 1983 the U.S. exported $306 million worth of farm products to Israel, while imports from Israel amounted to only $55 million.[53]

Because of the paucity of land and water, Israel is severely limited in its ability to increase its agricultural production. Another constraint on sales to the U.S. is its distance and the consequent high costs of transportation and the risk of spoilage for Israeli fresh fruits and vegetables. Even when all tariffs are eliminated, closer markets like Europe will continue to be the main outlet for Israeli food exports. Similarly, the U.S. will no doubt continue to import agricultural goods primarily from nearby countries such as Mexico, Canada and to an increasing extent from Caribbean countries already benefiting from duty-free treatment.

Even Israel's most productive farm sectors are dwarfed by U.S. production. For example, Israel produces about 300,000 metric tons of tomatoes for processing, about 5 percent of the level of U.S. production.[54] This amount is close to their maximum capacity, and Israeli experts predict that present Israeli production could be increased by only 10 to 15 percent in the coming years.[55]

Similarly, Israel cannot greatly increase its citrus fruit production. In fact, the land area for citrus cultivation in Israel is being reduced because of declining profitability.[56] Last year, Israeli exports to the U.S. of frozen concentrated juices were virtually nil.[57]

For U.S. manufacturing industries, too, the amount and impact of imports from Israel is very small. For example, Israel's share of U.S. imports of textiles and apparel was 0.2 percent in 1981; of total U.S. consumption (domestic production plus imports), Israel provided 0.02 percent. Moreover, in 1982 the U.S. had a $15.8 million surplus with Israel in textiles and apparel trade, exporting $33.2 million worth and importing $17.4 million. In the case of footwear, Israel's exports to the U.S. in 1982 totaled 0.15 percent of total U.S. footwear imports. Israel's bromine exports to the U.S. account for only 2-3 percent of total U.S. consumption.[58] These facts make the case for exclusions exceptionally weak.

Israel's industry is not a threat to the U.S. In fact, Israelis have tended to concentrate on filling specific product niches which arise when U.S. companies are not able to fully supply the demand. For example, Israeli companies export specialized, expensive, high-fashion apparel such as designer swim suits, and Israeli tomato producers concentrate on selling specialized goods such as diced tomatoes or seasoned sauces, which big American firms do not find so cost-effective to produce.

For all of the above reasons, individual sectors of the American economy are not likely to be threatened by increases in imports from Israel, and therefore there is little reason to exclude them from the FTA. Moreover, there are a number of reasons why the U.S. and Israeli governments are attempting to avoid exclusions in the negotiations and in the authorizing legislation. First, from a negotiating perspective, it is difficult to hammer out an equitable agreement if one of the governments is claiming right at the start that certain sectors are not subject to negotiations, and cannot be touched. Second, from an Israeli perspective, since over 90 percent of their products already receive duty-free treatment in the U.S., there is little incentive for them to sign an agreement offering the same, or even less coverage. Moreover, once an exception is granted for one sector, it is more difficult to say no to another sector asking for the same treatment. The agreement could be riddled by exclusions and the principle of free trade would be undermined.

Third, granting exclusions from an FTA is dangerous from a GATT perspective. Article XXIV of the GATT trade rules specifically sanctions free trade arrangements and customs unions as a deviation from "Most-Favored-Nation" (MFN) status only when such agreements cover "substantially all trade." In order to keep the agreement GATT-legal, the FTA cannot be burdened by numerous exceptions or exclusions of various products.[59] Otherwise, both Israel and the U.S. would leave themselves vulnerable to legal complaints filed by other GATT members and possible retaliatory trade restrictions or offsetting fines. Thus, for these reasons, both governments are attempting to keep the FTA as comprehensive and exclusion-free as possible.

The Subsidies Issue

A few critics of the FTA have expressed concerns about possible Israeli government subsidies to agriculture and industry, claiming that such practices would allow Israeli exporters an unfair advantage in an open market situation. They note that the government of Israel, although a member of the GATT, has not signed the GATT's Subsidies Code.[60] As part of the FTA negotiations, however, Israel has expressed a willingness to reduce export subsidies. It is expected that in the final FTA agreement, the Israeli government will either sign the GATT Subsidies Code or come to a bilateral understanding with the U.S. on reducing subsidies. This should alleviate many of these groups' concerns. Moreover, the usual U.S. trade laws against subsidies, dumping, and other unfair trade practices would continue to apply even with an FTA.

In the interest of fairness, it is also worth noting that Israel is certainly not the only country in the world with subsidies. Most developing countries are reluctant to commit themselves to the rigors and disciplines of the GATT Subsidies Code, even knowing they would have legal recourse to a material injury test if accused of unfair export subsidies. Even among those who are code signatories, subsidies remain a well-known protective device. Many countries of the European Community have had subsidy cases filed and won against them in the GATT. And the United States, too, has been charged with unfairly subsidizing exports through such practices as export tax incentives. The U.S. government also has a number of agricultural programs which either directly or indirectly subsidize food production. So, the subsidy issue is certainly not unique to Israel.

Fear of Precedent

Some have stressed that their real worry is not Israel *per se*, but the precedent that might be set by a U.S.-Israel FTA. A rubber footwear manufacturer testifying against inclusion in the FTA conceded that 90 percent of the damaging low-cost imports come from three low-wage countries: Taiwan, Korea, and the Peoples Republic of China.[61] A California olive producer requesting that olives be excluded from the agreement raised the specter of future free trade areas with major olive exporters like Spain and Morocco.[62]

This argument must be examined more closely. First, the legislation authorizing the FTA has built-in limits. The House version of legislation authorizing U.S. tariff reduction applies to Israel only. The present Senate version of the bill, as reported by the Senate Finance Committee, provides for free trade only with Israel and with Canada, and then sets up a strict procedure whereby other countries desiring similar arrangements would need Congressional as well as Administration approval.[63]

Secondly, the U.S. relationship with Israel has always been unique, and a U.S.-Israel FTA is a particular response to a special situation, much as the Caribbean Basin Initiative was to the situation in the Caribbean. An FTA with Israel is no more a precedent than the many other special programs the U.S. has with Israel or than the CBI is with the nations of the Caribbean.

Third, it is unlikely that many countries would be interested in negotiating a *reciprocal*, across the board removal of trade barriers. When, in the interest of "even-handedness," the Administration offered to negotiate an FTA with Egypt as well as Israel, Egypt could not accept it.[64] Egypt, like many developing countries, has pervasive barriers to trade and foreign investment as well as extensive government subsidies, and would be unlikely to accept the rigors of open competition. Canada, at present, is interested in only some limited sectoral free trade arrangements with the United States.[65] At a time when most countries of the world are experiencing difficult economic times—slow growth coupled with inflation, unemployment and debt repayment problems—few if any governments are ready to eliminate trade protection. The fear that a host of similar FTAs, some potentially injurious to the concerned industrial and agricultural groups, will follow rapidly on the heels of a U.S.-Israeli FTA, is remote at best. Under any circumstance, Congress would have to approve any future free trade arrangement and could judge each on its own merits.

Some have also raised the objection that other recipients of GSP benefits could seek an FTA agreement as a way to avoid GSP graduation. In reality, such demands—if they arise—should be viewed more as an opportunity for the U.S. to extract a price for what we now give to countries for free.

The Transshipment Issue

Some groups such as representatives of the citrus and apparel industries have voiced concerns about possible "transshipment," in which third countries might ship their products to Israel in order to take advantage of Israel's duty-free access to the U.S. For example, they warn, clothes made in low-wage sweat shops of Hong Kong would be shipped to Israel, the label changed to read "Made In Israel," and the goods then re-exported to the United States. Or, in another example, Brazilian frozen concentrate orange juice could be shipped all the way to Israel, there to be mixed with a little Israeli juice, and then re-exported duty-free to the U.S. in quantities far beyond Israel's own production capacity.

But, such scenarios are highly unlikely. Strict "Rules of Origin" will be included as part of any FTA, for it is in the interest of both countries to avoid transshipment problems. Such rules were successfully written for other U.S. duty-free programs such as the GSP and the Caribbean Basin Initiative (CBI). Similar provisions are contained in the Israel-EC free trade arrangement, and there have been virtually no complaints against Israel about any violations of these rules.

Because Israel is such a small country, and its production levels are well known, any huge shipment of goods reportedly made in Israel would be immediately noticeable and easily traceable to its true source.

Offsetting the U.S. Trade Deficit

Some labor critics of the FTA have stated that at a time when the U.S. is experiencing a large merchandise trade deficit and a rapidly increasing volume of imports, reduction of U.S. tariff and other protections "just does not make sense."[66] The FTA, they allege, would increase the U.S. trade deficit, thereby contributing further to the deterioration of America's industrial base and aggravating already high levels of unemployment.

The opposite is more likely to occur. With a U.S.-Israel FTA, it is almost certain that American exports, and the accompanying jobs and investment earnings, would increase further. But without a U.S.-Israel FTA, the U.S. trade deficit would worsen. Exports to Israel would undoubtedly decrease as the EC-Israel FTA goes into effect and U.S. export-related jobs would be lost. Furthermore, for years, the United States has maintained a large merchandise trade surplus with Israel, a trend likely to continue. Last year, the U.S. exported more than $400 million more to Israel than it imported: exporting a record $1.7 billion and importing about $1.2 to $1.3 billion, excluding U.S. military exports of another $1-$2 billion. Such U.S. exports translate into tens of thousands of American jobs, a number that is sure to increase after the establishment of a U.S.-Israel Free Trade Area.

Chapter 5
Conclusion

A U.S.-Israel Free Trade Area would strengthen the ties between the United States and our most reliable ally in the Middle East—Israel. There are, in addition, clear economic gains for both countries, as the FTA should lead to an increase in two way trade and investment. U.S. exporters will be able to maintain their market share in one of America's biggest markets in the Middle East, and in all probability should increase their sales considerably in the absence of trade barriers. Since increased exports mean the creation of many new jobs, American employment will be stimulated as well. U.S. companies will also benefit from the increased opportunities for profitable joint ventures and partnerships with Israeli firms capitalizing on Israel's strengths in research and development and skilled manpower. Yet because of Israel's small size, and the already high degree of openness in the U.S. economy, there is little risk for the United States in fully opening its market to Israel.

Israel, too, has much to gain from a Free Trade Area agreement with the United States. Knowing there will be secure access to the U.S. market for years to come will allow Israel to increase its export production in those relatively few, but specialized fields in which the country has a comparative advantage. Increased exports will help Israel to reduce the country's debt burden and balance of payments deficit and over time reduce dependence on foreign aid. The Israeli economy will be strengthened by being forced to make tough, rational economic decisions: focusing on sectors where Israel has a competitive edge and gradually phasing out those which do not. Finally, Israel will gain from the increased investment and joint venture opportunities U.S. corporations will seek with Israeli firms.

Both countries will clearly profit from a Free Trade Area. The ensuing economic benefits will enhance what is already one of the strongest and most unique relationships in the world—that between the United States and Israel.

Appendix
Thirteen U.S. Exports That Will Gain[67]

1. Computers and Office Machinery

Israel constitutes a strong market for U.S.-made computers and other office machines, and the prospects for future growth after the establishment of a U.S.-Israel FTA are excellent. On a per capita basis, Israel is second in the world (after the U.S.) in its number of computers. This extraordinarily high usage stems largely from the influence of the Israel defense forces, which utilize computers for virtually everything.[68] While most larger Israeli enterprises have already computerized their basic accounting and inventory systems, many are now entering a second computerization cycle which will lead to more complete office automation, computerized on-line production control, computer-aided design, etc.[69] In the last five years alone, U.S. exports to Israel of such machines have grown by 158 percent while U.S. exports of office machinery to Israel have grown by 289 percent.

In 1982, Israel imported about $213 million worth of computers, computer parts, and other office machinery. Although half of those imports came from the U.S., most of the remainder came from Western Europe. Early in 1984, Israel's tariff on computers was reduced by half for products coming from the EC, and U.S. firms are now in danger of losing their strong market presence in Israel due to this price advantage enjoyed by European firms.

Zvi Amit, chairman of the Federation of Israeli Chambers of Commerce, recently stated: "In many cases the American products, like office equipment, are clearly superior. But we buy European, because duties on American goods make the European imports cheaper. The 'zone' deal would cause a gradual switch to American goods."[70]

With a U.S.-Israel FTA, American firms can maintain and even increase their share of the rapidly expanding Israeli computer and office machinery market.

2. Telecommunications Equipment

Over half of Israel's $71 million worth of telecommunications equipment imports came from the United States in 1982. U.S. companies are competitively selling telegraphic and telephone-related equipment in Israel, even with tariffs which range on the average between 8 and 18 percent.

Considering Israel's small size, it is impressive that 3 percent of America's telecommunications exports went to Israel in 1983. During the last five years, U.S. telecommunications exports to Israel increased by 132 percent—a trend likely to accelerate if U.S. products were to enter Israel duty-free.

America's chief competition for Israel's import market comes from EC countries (principally West Germany), and non-EC countries like Switzerland, Japan, and Hong Kong. Eliminating the tariffs on U.S. goods will ensure that America continues to play an important role in the Israeli market and that U.S. firms will not lose market share when West Germany begins receiving duty-free treatment under the Israel-EC free trade agreement. It will also give American companies an edge over non-EC suppliers such as those in Japan, a country posing an increasing competitive threat to U.S. firms.

3. Electronics

The United States currently exports $103 million worth of dutiable electronic goods to Israel, an amount representing 2,000 American jobs.[71] But America's one-third share of Israel's import market is threatened with erosion as the provisions of the free trade agreement between Israel and the EC are implemented. Once European firms are given complete duty free access, while U.S. companies face tariffs of up to 20 percent, a substantial decline in U.S. electronics exports to Israel is likely to occur.

Agreement on an FTA between the U.S. and Israel can prevent this probable erosion in U.S. electronics trade with Israel, by keeping the U.S. on an equal basis with the EC exporters. An FTA agreement will increase the incentive for Israelis to buy U.S. electronics items, and expand opportunities for American firms to increase their exports to Israel, thus creating more jobs in the United States.

U.S. exports have already increased substantially over the past five years, and should continue to do so if allowed to remain competitive in the Israeli market. For example, exports of electronic apparatus for medical usage have increased 40 percent since 1979. Other promising areas include electric accumulators, circuits, measuring and checking apparatus, electric motors, meters, wire, cable, batteries, radio and reception equipment.

4. Wood and Wood Products

Wood products offer a particularly promising opportunity for substantial U.S. export gains under a U.S.-Israel FTA. Despite great efforts at afforestation by the Government of Israel and the Jewish National Fund, forests cover only 5.3 percent of Israel's land area.[72] Therefore, Israel must import a substantial volume of wood—soft woods such as pine for construction projects, and hard woods such as oak and mahogany for furniture and other specialty goods.

But, of the $111 million worth of dutiable wood products Israel imported in 1982, only about $3 million came from U.S. suppliers. The major suppliers, in descending order, were: Finland, Yugoslavia, and France. In the case of Finland—which accounts for close to half of Israel's pine and other evergreen imports but is not an EC member—the tariff rates will remain at their present high levels (for example, 35 percent for pine and evergreen). In the case of France, the extremely high Israeli tariffs are already being reduced as part of the EC-Israel free trade agreement, and France's share of the market should increase further as the tariffs are completely eliminated. If the U.S. were to receive duty-free treatment in Israel, America's presently small share of Israel's wood imports could greatly increase.

One forest industries executive specializing in international trade said recently, "The industry has done poorly all over the Middle East. But the market is there, it's just that we are not aggressively pursuing it."

Israel also imports about $25 million worth of *furniture*, almost all of it dutiable. Here, too, the U.S. industry is edged out by European competition, principally Italy and West Germany. When Heritage International Bank—the only U.S. bank with an office in Israel—opened its office in Tel Aviv this year, the bankers were interested in buying American furniture and other American style furnishings in order to promote an American image. But because of the high duty costs imposed on the importation of such furniture and equipment, the purchase of American-made products was prohibitively expensive. In the words of Heritage's chairman, "In exercising prudent economic judgment, we had to purchase products manufactured in Israel—which we believe to be less well suited to the image we wished to project than American-made items would have been."[73]

In order to ensure that U.S. furniture can be sold on a competitive basis in Israel, duties must be cut for U.S. as well as European goods.

5. Paper and Paperboard Products

The U.S. paper industry has found a large market for certain specialized products in Israel. For example, in spite of Israeli tariffs ranging from 8 to 16 percent, U.S. companies sold $24 million worth of kraftpaper and board to Israel in 1982, or 70 percent of Israel's total imports of such products. The U.S. commands about a quarter of Israel's market for imported paper, paperboard, rolled sheets, and the like, products which carry an extremely high tariff rate of 28 percent. And the market has been expanding for U.S. exporters: between 1979 and 1983, U.S. sales of pulp and waste paper to Israel increased by 2171 percent; U.S. cut paper and paperboard increased by 142 percent.

But the U.S. faces intense competition from Europe. The European Community nations sold $32 million worth of dutiable paper supplies to Israel in 1982, while Sweden and Finland accounted for another $17.4 million. When the tariff rates for EC goods drop to zero in the next few years, it is expected that their sales will increase at the expense of U.S. suppliers, unless the United States signs an FTA with Israel.

Obtaining zero tariffs for U.S. paper goods would also give American companies a competitive edge over products from the Scandinavian countries, which are not members of the EC and therefore will continue to face tariffs.

Heavy paper materials, such as those used in packaging and shipping, will likely be in increased demand as Israel expands its industrial base and exports under the free trade arrangements.

Paper and its related products are manufactured for export largely in the Northwest, as well as the South, Pennsylvania, and Maine. Over 11 percent of the industry's jobs are export-related. Washington state's paper products industry relies heavily on foreign trade, exporting 21.5 percent of its product. Increased export opportunities are critical to a sustained economic recovery for Washington and the Pacific Northwest.

6. Motor Vehicles

Israel relies upon imports for much of its transportation needs. In 1982, Israel imported over $551 million worth of dutiable motor vehicles and parts, with only about 10 percent of that product coming from the United States. Most imported motor vehicles face heavy tariffs in Israel, ranging from about 20 percent to 46 percent.

Currently, the most popular U.S.-made dutiable products exported to Israel are diesel engine motor vehicles; passenger cars with engines larger than 1800 c.c.'s; trucks and other light transport vehicles; and various parts and accessories for motor vehicles. In 1983, the U.S. and Canada exported 981 trucks to Israel. In addition, Ford and Chrysler trucks, assembled by Automotive Industries of Nazareth, and Mack trucks, assembled by Ashdod Automotive Industries, would all greatly benefit by being able to sell U.S.-made parts duty-free to the Israeli plant for assembly. The finished trucks or other motor vehicles could then be sold in Israel; or exported duty-free to the EC countries, taking advantage of the Israel-EC free trade agreement.[74]

Most of the competition faced by the U.S. in Israel for larger passenger cars, diesel engine motor vehicles, light transport vehicles, and vehicle parts/accessories comes from West Germany, France, and Sweden. For example, half of the larger passenger cars imported by Israel comes from West Germany, while the U.S. and Swedish suppliers each account for roughly 20 percent. When West Germany, as part of the Israel-EC agreement, no longer has to pay the 33 percent tariff presently imposed by Israel, it is likely they could further dominate this market. With a U.S.-Israel FTA, however, and with improved marketing efforts on the part of U.S. automakers, U.S. producers would be competing in Israel on equal terms with their EC counterparts and would enjoy a distinct tariff advantage over non-EC nations like Sweden. Such conditions would create the opportunity to increase U.S. motor vehicle exports to Israel.

7. Iron and Steel Products

Israel lacks most mineral resources, and therefore imports most of the iron and steel it needs for industrial production. In 1982, Israel imported $388 million worth of iron and steel products, with only about 11 percent of that amount supplied by the United States. In a number of products, the U.S. share is very small compared to that of South Africa or Western European countries. For example, for certain kinds of wire rod of iron or steel, South Africa accounted for 48 percent of Israel's import market, Romania for 25 percent and the U.S. for only 1 percent. But in a few categories the U.S. is very competitive: for example, the U.S. supplied 67 percent of imported iron and steel bolts, nuts and screws, and 40 percent of various kinds of other iron and steel articles. These goods face high tariffs: bolts, nuts and screws have a 40 percent tariff, and a 20 percent tariff is imposed on many of the other iron and steel articles. Thus, U.S.

market share is likely to fall, and West Germany—the second biggest foreign supplier of those articles—is likely to increase its sales, when the tariff for EC goods is eliminated, unless there is a U.S.-Israel FTA.

An additional boost for U.S. steel products is likely as an indirect consequence of increased Israeli purchases of U.S. motor vehicles if tariffs were abolished. This would occur because of U.S. steel components incorporated into the finished U.S. vehicles exported to Israel.

Israel also imported $36 million worth of *base metal tools* in 1982, with the U.S. accounting for about 20 percent of Israel's total imports. The EC countries accounted for half of these imports. Since the duties average from 10 to 16 percent, it is likely the EC would completely dominate the market if their tariffs were abolished and a U.S.-Israel FTA not implemented.

8. Appliances

Israelis currently purchase about $44 million worth of imported dutiable home appliances, but it is believed they would buy a great deal more if such goods were duty-free and therefore less expensive. American-made goods already account for about 20 percent of Israel's import market. Because they are considered to be superior products and are often cheaper than Israeli-made goods, the potential for expanded sales is great if they were priced even more competitively.

Forty-four percent of the imported refrigerators in 1982 came from the United States, even with the 14 percent tariff. But France, West Germany and Italy together accounted for 78 percent of the washing machines imported. These EC countries are already enjoying reduced customs duties on their exports of such goods as washing machines, vacuum cleaners, and food grinders which by 1989 will enter Israel duty-free. If the U.S. does not have a similar arrangement with Israel, American firms are likely to see an erosion in their present share of Israel's market for such consumer goods.

9. Textiles and Apparel

Israel imports a significant quantity of textiles and apparel, importing $227 million worth of dutiable textiles and apparel in 1982. The imported products included: continuous and discontinuous man-made fibers; cotton; pile, chenille, net, lace, fabric, etc.; wadding, ropes, and textiles for industry; knitted or crocheted fabric; apparel; and clothing accessories. Of these imports, the U.S. supplied only $35 million, or 15.4 percent. For some American specialized apparel products, however, Israel constituted the primary overseas market in 1983: for example, handkerchiefs of certain materials, textile fabric raincoats, and mens' and boys' pajamas.

The U.S.' main competition for Israel's valuable textile and apparel import market comes from European Community members, primarily West Germany, Italy, England and France. These four countries supplied 53 percent of Israel's imports of textiles and apparel in 1982. Like other EC members, they enjoy a tariff advantage over the U.S. and other countries as a result of the free trade agreement Israel signed with the EC—an advantage that will grow as tariffs on EC goods are soon completely eliminated. For example, in 1982, the U.S. faced a 14.9 percent duty on fabrics made of synthetic fibers, while EC countries' products had only a 10.6 percent tariff, which will drop to zero by 1989. It should be noted that Asian countries do not directly supply Israel with large amounts of textiles.

The Israeli apparel industry, while small, utilizes imported fabrics and yarns, as well as foreign industrial machinery. Therefore, increased Israeli apparel exports will generate the need to import more goods; if U.S. goods are duty-free, Israeli firms will be more likely to "buy American."

In light of these facts, U.S. producers should be able to significantly increase their exports of textiles and apparel to Israel with the implementation of a U.S.-Israel FTA and the elimination of tariffs on those products. Conversely, the U.S. share of Israel's textile and apparel market will decline even further unless such an agreement is signed. American exporters could compete more favorably with their European counterparts once their tariff positions were equalized. Both would enjoy a distinct tariff advantage over other, non-EC competitors.

10. Alcoholic Beverages

The U.S. share of Israel's alcoholic beverages market has been relatively small because of European domination of the import market. For example, in 1982, 71 percent of Israel's beer imports came from the Netherlands and 21 percent came from Denmark. The general tariff on imported beer is 12 percent—but for the EC, the tariff has already been cut to 6.3 percent. This will soon be further reduced to zero, when the EC-Israel free trade agreement is fully implemented. In the last six years, Israel's 18-24 age group's beer consumption increased by 50 percent, and the establishment of locally produced Budweiser in Israel this year illustrates the growing interest by young Israelis in the lighter, American style beer.[75] There is little reason that, given equal terms of trade with a U.S.-Israel FTA, American alcoholic beverage producers could not compete favorably with the major European competitors.

11. Tobacco

U.S. cigarettes dominate Israel's import market, accounting for 93 percent in 1982. The major competition for U.S. firms in Israel's market comes from an Israeli firm. American brands such as Kent and Marlboro are popular in Israel, but are at least twice the price of domestic brands because of high duties and other taxes. If tariffs on U.S. imports were eliminated, and prices were comparable to domestic brands, it is very likely that Israelis would buy more American-made cigarettes.

Israel also imported about $21 million worth of unmanufactured tobacco in 1982, but only 23 percent of it came from the United States. Since the other major supplies are non-EC countries such as South Africa, Israeli producers would be likely to increase their purchases from the United States were there a free trade arrangement.

It should be noted, however, that even with high tariffs, American firms have been steadily increasing their sales to Israel. U.S. manufactured tobacco exports to Israel grew by 96 percent over the last five years and U.S. unmanufactured tobacco exports grew by 109 percent. It is therefore clear that Israel represents a growing market for U.S. tobacco products which would be further enhanced by the elimination of tariffs.

Moreover, the U.S. tobacco industry is heavily dependent on exporting. In 1981, 21 percent of the industry's total shipments were export-related. Tobacco producing states are concentrated in the southern United States, with North Carolina and Kentucky the primary producers.[76]

12. Medicinal and Pharmaceutical Products

Most of Israel's imported pharmaceutical products and medicines are dutiable, although tariffs have already been eliminated for the EC on such items as medicines not produced in Israel and tetanus vaccines. The import market is dominated by the European countries, with EC nations accounting for 60 percent of the imported goods, and Switzerland accounting for an additional 18 percent.

Although U.S. brand name products are preferred by the many Americans travelling or living in Israel, and by some Israelis who have visited or lived in the United States, these products are often prohibitively expensive. Tariffs range from 2 percent for antibiotic preparations which are not produced in Israel to 18 percent for those medicines competing with Israeli goods. If U.S. companies were to step up their advertising to increase brand name recognition, and take advantage of duty-free treatment, it is likely that American firms could greatly increase their current 16 percent share of the import market.

13. Polymers

Polymers, basically raw materials used in plastics, find a surprisingly large market in Israel. Companies like Rotoplas and Ramot use such materials to produce everything from bomb casings to garbage retainers and lamp shades using Israeli-developed rotational moulding methods. The market for such products in Israel has grown substantially in recent years, particularly as the Israelis have developed highly sophisticated techniques for refining moulding methods, binding incompatible polymers and utilizing newly discovered raw materials.[77]

Israel imported $75 million worth of dutiable polymers in 1982, but only $11 million worth, or 15 percent of Israel's total imports of these products, came from the United States. America's main competitor in the Israeli market is the EC, whose combined polymer exports to Israel were about $52 million or 70 percent of Israel's total imports of these products in 1982. The United States has the potential to export greater quantities of polymer materials to Israel; however, Israelis may prefer to buy the lower-tariffed EC products resulting from their free trade agreement. The American share of Israel's imports of these materials could increase substantially were the United States to negotiate a similar FTA accord with Israel, thereby creating a tariff equilibrium with the EC.

FOOTNOTES

1. Ronald Reagan, "Remarks of the President to the Young Leadership Conference of the United Jewish Appeal," the Washington Hilton, Washington, D.C., March 13, 1984.
2. The European Community, or EC (also known as the European Economic Community, the Common Market, or the Ten), presently includes: France; West Germany; Italy; Belgium; Netherlands; Luxemburg; United Kingdom; Ireland; Denmark; and Greece. Spain and Portugal are scheduled to become EC members in 1986.
3. Bank of Israel, *Annual Report 1983* (Hebrew Edition), (Jerusalem: HaMakor, May, 1984), pp. 175, 220. 1983 Israeli imports of all goods (not including direct defense imports) = $8.3 billion. 1983 Israeli imports of all services (not including capital services) = $2.9 billion.
4. Manufacturers Association of Israel, Department of Trade and International Relations, "The Position of Israeli Industry on the FTA with the U.S.," Tel Aviv, Israel, March 1984.
5. Currently, about 55 percent of Israel's exports to the U.S. enter duty-free as a result of various tariff reductions under the General Agreement on Tariffs and Trade (GATT) and about 35 percent enter duty-free under the U.S. Generalized System of Preferences (GSP), leaving about 10 percent of U.S. imports from Israel facing tariffs.
6. Using 1983 U.S. imports (c.i.f.) = $270 billion and 1983 U.S. imports from Israel = $1.3 billion, we calculate imports from Israel to be only .48 percent of total U.S. imports.
7. Stanley Fischer, "The Economy of Israel," working paper no. 1190, (Cambridge: National Bureau of Economic Research Inc., 1983), p. 1a.
8. Constructed from Government of Israel statistics, using net foreign aid figures.
9. Eliyahu Kanovsky, "The Oil Myth," *The Jerusalem Post*, May 24, 1984.
10. "Free Trade Areas: New Opportunities, New Risks," Interview with Doral Cooper, Assistant United States Trade Representative (U.S.T.R.), *International Business Review*, March 1984, p. 4.
11. *Ibid.*; also, U.S.T.R.'s "Private Sector Advisory Committees' Briefing Paper on U.S.-Israel FTA Negotiations."
12. In an $8 billion Israeli import market, every 10 percent change in market share represents the addition or loss of about 20,000 American jobs. This calculation is based on the estimate that $1 billion in U.S. exports = 25,000 American jobs, contained in the report of the U.S. Department of Commerce, Office of Trade and Investment Analysis' "Domestic Employment Generated by U.S. Exports," May 1983. In addition, many jobs are created by selling imported goods and services in the U.S.—distributors, retailers, port and terminal workers, transportation services, etc. See "Silver Lining, Imports Often Blamed for Killing U.S. Jobs, Create New Ones Too," *Wall Street Journal*, February 29, 1984, p. 1.
13. According to the U.S.T.R., the average U.S. tariff on imported goods was 6.1 percent in 1979 and will be reduced to 4.2 percent by 1987, as the last of the tariff reductions agreed to in the MTN Tokyo Round are implemented.
14. *Bank of Israel, Annual Report 1983*, (Hebrew Edition), (Jerusalem: HaMakor, May 1984), p. 215. This figure excludes diamonds and fuel trade.
15. Figures from U.S. Department of Commerce, Bureau of the Census, (FT 455 Series, "U.S. Exports, Schedule E, Commodity by Country," December 1983).
16. "Top Thirty Dutiable U.S. Industrial Exports to Israel, 1980," Private Sector Advisory Committees Briefing Paper on U.S.-Israel FTA Negotiations, U.S.T.R.
17. These industries were selected on the basis of information compiled by AIPAC from the following sources: *Foreign Trade Statistics, Imports, 1982*, Vol. XIV, (Israel) Central Bureau of Statistics; *Bulletin International des Douanes (tariff guide for) Israel, 1982-83;* Brussels, September 1982; "Industry Market Information/Country Trade Statistics—Israel," U.S. Department of Commerce, International Trade Administration, February 8, 1984; *Origin of Exports of Manufactured Products 1981, Annual Survey of Manufacturers,*

U.S. Department of Commerce, Bureau of the Census, Washington, D.C., issued May, 1983. These are also the primary sources for the following five example industries except where otherwise noted. Two main criteria are used to determine American industries which would be most likely to gain, or benefit, from a U.S.-Israel FTA:

1) If the U.S. had only a small share of Israel's imports of a certain product and its EC competitors had a tariff advantage, then under a U.S.-Israel FTA, when both the U.S. and EC exports face the same tariffs (zero), the U.S. should be able to increase its market share considerably.

2) If the U.S. already enjoyed a large share of Israel's imports of a certain product, when the tariffs on the EC's exports of that product drop to zero [by 1989], it is reasonable to expect a significant erosion of the U.S. market share. Such a disadvantage can be avoided by concluding a U.S.-Israel FTA.

18. Allen Reiter, "Israeli Software Industry," *The Israel Economist*, July 1984, pp. 16-17.
19. Zvi Amit, chairman of the Federation of Israeli Chambers of Commerce, as quoted by Macabee Dean, "Meeting the Free Trade Zone Challenge," *Jerusalem Post*, July 11, 1984.
20. U.S. Department of Agriculture statistics.
21. Office of the Chief Scientist in the Ministry of Industry and Trade and the Israel Investment Authority, *Industrial R & D in Israel*, publication of the Government of Israel (Tel Aviv, Israel: Israel Economist Publishing Service, May 1984), pp. 7-8.
22. Using U.S. Department of Commerce and OECD figures, as cited in a report by the Manufacturers Association of Israel. the average salary in manufacturing in 1982 is twice as high in the U.S. ($17,194—highest in the world) as in Israel ($8,187). However, the product per employed person in the U.S. ($38,900) is more than three times that of the product per employed person in Israel ($12,350). In other words, salary as a proportion of product per employed person for U.S. employers is only 44.3 percent compared to 66.3 percent for Israel. So, with their lower productivity in Israel, the cost of the labor input in manufacturing is higher than in the U.S. Also, AIPAC's *U.S.-Israel Free Trade Area: Questions and Answers* compares wages in Israel with those in other developing countries, and concludes that Israel's are substantially higher.
23. Sandra E. Smith, unpublished manuscript, "High-Technology in Israel: A Frequently Ignored Opportunity," U.C.L.A., February 23, 1984, pp. 47-49.
24. Author's interview with Yigal Erlich, Chief Scientist—Ministry of Industry and Trade, Government of Israel, May 28, 1984.
25. U.S. National Study on Trade in Services, U.S. Submission to GATT, Office of the U.S. Trade Representative, December, 1983.
26. "Free Trade Areas: New Opportunities, New Risks," p. 3.
27. *World Military Expenditures and Arms Transfers 1972-1982*, publication 117, (Washington, D.C.: U.S. Arms Control and Disarmament Agency, April 1984).
28. Gideon Patt, Israeli Minister of Industry and Trade, statement to AIPAC officers visiting Israel, January, 1984.
29. "High Tech Interview" (with Sami Friedrich, General Director of the Ministry of Economy and Interdepartmental Coordination, Government of Israel, by Pinchas Levinson), *The Israel Economist*, May 1984, p. 24.
30. *Industrial R & D in Israel*, p. 7.
31. *Ibid.*, p. 6.
32. Author's interview with Moshe Semadar, head of the Foreign Trade Administration in the Ministry of Industry and Trade, Government of Israel, May 28, 1984.
33. Moshe Semadar (interview), *The Jerusalem Post*, February 24, 1984.
34. "The Israeli Economy-Main Indicators," Ministry of Finance, Department of International Affairs, Government of Israel, February 1984.
35. Avia Spivak, "The Economic Crisis in Israel," Lecture given November 3, 1983 at the American Enterprise Institute.
36. *Facts About Israel*, (Jerusalem: Israel Information Center, 1977), p. 162.
37. Avia Spivak, November 3, 1983.
38. *Bank of Israel, Annual Report 1982* (Jerusalem: HaMakor Press, Ltd, May 1983), p. 155.
39. "The Israeli Economy-Main Indicators," February 1984.

40. Testimony of Dan Halperin, Economic Minister, Embassy of Israel, before the Trade Policy Staff Committee [TPSC] of the U.S. Trade Representative [USTR], April 1983, p. 7.
41. Middle East Policy and Research Center, "Issue Analysis Background—Israeli Economy," December 1983, Presented as Attachment A to the testimony of David Sadd (Executive Director, National Association of Arab Americans) before the House Ways and Means Committee, Trade Subcommittee 98th Congress, 2nd Session, June 14, 1984, p. 6.
42. Government of Israel statistics.
43. Gideon Patt, speaking at the Jerusalem Economic Conference, *The Jerusalem Post*, May 23, 1984.
44. William R. Cline, *International Debt and the Stability of the World Economy*, (Cambridge: MIT Press, September, 1983), p. 131.
45. Halperin testimony before the TPSC.
46. Arab League Resolution 16, as cited by Walter Henry Nelson and Terrence C.F. Prittle, *The Economic War Against the Jews*, (New York: Random House, 1977), pp. 10-11.
47. *Industrial R & D in Israel*, pp. 20, 23.
48. "High Tech Interview," p. 24.
49. "Isratech," *The Israel Economist*, May, 1984, p. 21. This strength is evidenced by the attendance of about 100 U.S. executives at the May 20-24, 1984 Jerusalem Economic Conference and about 300 potential U.S. buyers at Isratech '84, which featured products developed by Israeli high tech industries.
50. Lionel H. Olmer, Under Secretary for International Trade, U.S. Department of Commerce, speech before Jerusalem Economic Conference, May 21, 1984.
51. Author's interviews with Israeli officials in Israel, May 1984. The Israel-United States Binational Industrial Research and Development Foundation (BIRD-F) was set up by the governments of Israel and the U.S. "to promote and support joint non-defense industrial research and development activities of mutual benefit to Israel and the U.S." Begun in 1977, by 1986, BIRD-F expects sales from projects to reach $170 million. *Industrial R & D in Israel*, pp. 14-16.
52. Competitive Need Limitations—a provision in the U.S. GSP requiring automatic exclusion of a country's product from preferred treatment when imports of the product from that country exceed either 50 percent of all U.S. imports of the product or $53 million. If the U.S. GSP is renewed, these levels may be set lower, at 25 percent or $25 million.
53. *Foreign Agriculture Trade of the United States*, U.S. Department of Agriculture, (Washington, DC: U.S. Government Printing Office, May 1984).
54. "Tomato Canners Position," *Food Institute Report*, April 28, 1984, p. 14.
55. Author's interview with Yael Artzi, Food Director, Israel Export Institute, June 1, 1984.
56. Information from Israel's Ministry of Industry and Trade.
57. Hank Flaubert, "Israel's Citrus Fruit Products Industry," *The Israel Economist*, March 1984, p. 21. Israel's 1983 exports of concentrated citrus juices to the U.S. and Canada (together) was only $15,000 (compared to exports to the EC of $71.5 million). This amount is so small that Israel does not even appear as a supplier to the U.S. of concentrate citrus juices in the 1983 U.S. Department of Commerce statistics of "U.S. General Imports and Imports for Consumption—December 1983."
58. AIPAC, *U.S.-Israel Free Trade Area: Questions and Answers*, May, 1984.
59. Doral Cooper interview in *International Business Review*, p. 4. Some FTA critics express fear that a U.S.-Israel FTA might require the U.S. to grant equal benefits to the 48 other countries with which the U.S. has Friendship, Commerce and Navigation [FCN] treaties. However, these fears are misplaced. For example, in the U.S. FCN treaty with Saudi Arabia, the escape clause in Article V provides that Congress may pass legislation which supercedes any FCN obligation to offer similar duty concessions. Furthermore, in other American preferred treatment programs, like the GSP and the Caribbean Basin Initiative [CBI], there has been no case of FCN treaty countries claiming rights to similar duty reductions.
60. GATT Subsidies Code—negotiated in the Tokyo Round of the Multilateral Trade Negotiations (concluded in 1979), this code sets out certain ground-rules on the subject of subsidies.

61. Testimony of the Footwear Division of the Rubber Manufacturers Association before the Trade Policy Staff Committee of the U.S.T.R., April, 1984, p. 4.
62. Testimony of the California Olive Association before the Senate Finance Committee, 98th Congress, 2nd Session, February 6, 1984, pp. 4-5.
63. 98th Congress, 2nd Session. H.R. 5377 was introduced April 5, 1984 by U.S. Rep. Thomas Downey (D-NY). S. 2746 was reported June 11, 1984 by Sen. Robert Dole (R-KS) from the Finance Committee.
64. Helen Ericson, "U.S. Aims at Liberalized Trade Policy," quoting Deputy U.S. Trade Representative Michael Smith, *Journal of Commerce*, February 24, 1984.
65. Testimony of Robert E. Lighthizer, Deputy U.S. Trade Representative, before the House Ways and Means Committee, Trade Subcommittee, 98th Congress, 2nd Session, May 22, 1984, p. 11.
66. Testimony of Stephen Koplan, on behalf of the American Federation of Labor/Congress of Industrial Organizations, before the House Ways and Means Committee, Trade Subcommittee, 98th Congress, 2nd Session, May 22, 1984, p. 3.
67. See footnote 17.
68. Uri Shemesh, Israeli computer engineer, as quoted by Judy Krausz, "Israel's New Challenge: High Technology Export," *Pioneer Woman*, May-June 1984, p. 6.
69. Reiter, *Israel Economist*, May 1984, pp. 16-17.
70. As quoted by Dean, *Jerusalem Post*, July 11, 1984.
71. Calculation based upon figures from U.S. Department of Commerce, "1981 Annual Survey of Manufacturers," p. 20-31.
72. The JNF calculates the afforested area in Israel in 1984 to be almost 270,000 acres. Using 640 acres = 1 mile, and estimating Israel's land area as 8,000 square miles, this translates into 421.875 square miles of timberland, or about 5.3 percent of Israel's land area. Every year the JNF reclaims about 6,000 acres (9.375 square miles), some 5,000 of which are afforested.
73. Donald E. Wolpe, Chairman of the Board, Heritage International Bank, Testimony before the House Ways and Means Committee, Trade Subcommittee, 98th Congress, 2nd Session, June 14, 1984, p. 2.
74. Information provided by the International Affairs Department of the Motor Vehicle Manufacturers Association of America, Washington, D.C.
75. Yonaton Mabat, "Beer and Bud," *The Israel Economist*, July 1984, p. 33.
76. U.S. Department of Agriculture, *Agricultural Statistics, 1983* (Washington, D.C.: U.S. Government Printing Office, 1983), p. 97.
77. Interview by Sandra Smith with Shaul Zamir, President of Rotoplas Inc., Jerusalem, July 12, 1983.

Mr. **Matsui**. This concludes the committee's hearing on the United States-Israel free-trade area agreement. The hearing record will remain open for written statements until the close of business on Friday, March 15. The meeting is adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

American Federation of Labor and
Congress of Industrial Organizations,
Washington, DC, March 14, 1985.

Hon. Dan Rostenkowski,
Chairman, Committee on Ways and Means, House of Representatives, Longworth Building, Washington, DC.

Dear Mr. Chairman: The AFL-CIO appreciates this opportunity to reiterate our opposition to the establishment of a "free trade area" with Israel. We continue to believe that the enactment of a bilateral agreement of this type with Israel or with any country simply places an additional burden on American workers who are already paying the heavy price of unemployment and lost earnings due to trade and economic and a rising flood of imports.

As the Chairman knows, the AFL-CIO has historically been one of the most vocal supporters of Israel in the U.S. Our opposition to the proposed agreement in no way suggests a lessening of our commitment. Rejection of this agreement is not anti-Israel. It is rather a proper expression of concern over the health of U.S. industry and the employment of American workers.

For 1984, the U.S. merchandise trade deficit reached a record $123 billion, almost double the level experienced in 1983. For manufacturing trade alone, the U.S. in 1984 was in deficit some $89 billion, representing a tremendous shift from the traditional manufacturing trade surpluses of the 1970's. This huge deficit has contributed significantly to the deterioration of America's industrial base and our continuing high levels of unemployment. Estimates of job losses due to trade reach into the millions. At a time when the U.S. is experiencing a trade crisis of this magnitude, the elimination of U.S. tariffs and other protections does not make sense.

As stated in Congressional testimony last year, our concern over this proposed agreement is twofold. First is the issue of precedent. If Congress approves, this agreement would be the first such free trade arrangement in U.S. history. Its establishment would make future requests from other countries for free trade areas much more difficult to refuse. In fact, the Administration has acknowledged that discussions on this issue have already been held with a variety of countries.

Second, there are numerous problems that are specific to such an agreement between the U.S. and Israel. The concerns we expressed last year have in no way been lessened after examining the draft agreement that is currently before Congress. The protection promised for import-sensitive industries has not in our view been realized. Immediate duty reductions for certain kinds of leather products, footwear, and textile and apparel products and electrical equipment make little sense in light of the tremendous import surges of recent years.

Other concerns specific to this agreement include the following:

The agreement appears to restrict the ability of U.S. industry to receive relief under Section 201 of the Trade Act.

The agreement, while providing Israel the benefit of the injury test before the imposition of any countervailing duty, allows Israel to maintain certain export subsidies for six years.

The agreement permits Israeli protection of so-called "infant industries."

The agreement permits Israel to reimpose tariffs and even quotas by claiming balance of payments problems.

The agreement appears to substantially change U.S. Government procurement practices by lowering the contract value threshold but apparently continues to permit Israeli government offset requirements.

The AFL-CIO does not believe that increased access to the $8 billion Israeli market matches the benefit of basically unfettered access to the huge U.S. market. We believe that the statement of Director General of the Israel Export Institute, Rami Gutt, who recently predicted a 25 percent annual growth in Israeli exports to the U.S. resulting from this agreement, is all too true.

The AFL-CIO has supported and continues to support appropriate economic and military assistance to Israel. That assistance is properly shared by all segments of our society.

This agreement, if concluded, is a further example of the U.S. acting contrary to its own need at a time of record trade imbalance, lost jobs of American workers and lowered living standards for all. We, therefore, urge rejection of this proposal.

Sincerely,

RAY DENISON,
Director, Department of Legislation.

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT, CALIFORNIA ALMOND GROWERS EXCHANGE

This statement is being submitted by the California Almond Growers Exchange (the Exchange) for the written record in connection with the March 6, 1985 hearing on the Administration's proposed Free Trade Area does not provide a meaningful reduction of trade barriers with Israel.

California Almond Growers Exchange had expressed reservations about extending negotiating authority of this agreement when we participated in Congressional hearings on the matter last spring. At that time the Exchange voiced its concern that a bilateral trading arrangement would be contrary to the United States' commitment to fair and equal tariff treatment to all GATT member countries. Additionally, the Exchange cautioned that the authorizing legislation gave the Executive Branch discretion to negotiate the agreement without guaranteeing protection of U.S. import and export interests. Therefore, as a matter of policy and economics, the California Almond Growers Exchange opposed a bilateral approach to reduced trade barriers.

Notwithstanding these objections, the authority for negotiating a U.S./Israel Free Trade Area was conferred by Congress to the United States Trade Representative. Despite our reservations, we hoped that such an agreement would lower Israeli barriers to U.S. export trade in almonds and almond products, and that a Free Trade Agreement would result in improved access to the Israeli market for our products. The present agreement will not produce this result, because it does not effectively address Israeli import restrictions which inhibit trade.

The California Almond Growers Exchange has had a long-standing interest in developing the Israeli market for almond exports. This interest has historically been frustrated by Israel's tariff and non-tariff barriers which have obstructed U.S. export opportunities for almonds.

Currently there is a 15% ad valorem import duty on almonds. In addition to this tariff barrier, Israel imposes restrictive licensing requirements which effectively limit access to this market. Beyond these barriers, imported almonds are subjected to a variable levy scheme designed to eliminate price advantages of the imported product versus the local product. The actual levy amount varies depending on the price of the imported product relative to the competitive domestic product. Therefore exporters have no real opportunity to fairly compete in the Israeli market.

Israel also currently maintains a sizeable import deposit requirement on almonds. Accordingly, importers have to deposit 60% of the landed value with the Israeli Ministry of Finance, and receive a repayment of the nominal value of the deposit after one year. The deposit requirement, in essence, creates a considerable disincentive to import since a large portion of the import deposit is forfeited owing to the high Israeli inflation rate.

Recently, prospects for almond exports significantly worsened when Israel raised its import deposit requirement from 40% to 60% of the landed value. This action was taken in January, 1985, well after the Free Trade Area negotiations were under way. The Israelis have erected additional trade barriers while at the same time negotiating for the reduction of U.S. tariffs. We feel that if the proposed agreement is to produce a legitimate bilateral Free Trade Area, Israel should not be increasing trade barriers to almonds, but eliminating them.

From what we understand of the proposed agreement, almonds will be treated by the Israeli's as a Stage Four product, i.e., there will be no duty elimination for five years, with additional negotiations to determine reductions in the future. Therefore, Israel will maintain its 15% tariff on almonds through 1989. In the following five years, the tariff will gradually be staged to zero depending on the outcome of future negotiations.

Even after this ten year delay, the ultimate duty free status of almonds will not ensure U.S. exporters free access to the Israeli market. As we understand the Agreement, Article VI of the proposed agreement provides that Israel can maintain all of the substantial non-tariff barriers outlined above that effectively limit U.S. trade in this area. In terms of real access to a market, it is meaningless to grant duty free status without also removing non-tariff barriers as well. So long as these barriers remain in effect, prospects for greater U.S. almond trade with Israel would be frustrated even with zero duty on imports. The proposed agreement simply does not address this problem.

One of the key objectives of the Free Trade Area is to eliminate tariff barriers to markets and thereby provide a free flow of commerce between these two countries. This goal cannot be accomplished if non-tariff barriers are erected in substitution of duties. Israel has done exactly this by increasing import restrictions on almonds beyond the substantial barriers to trade previously in existence.

The Exchange also is concerned that the proposed Free Trade Agreement does not allow for fair and equal competition among almond producers. The proposal eliminates U.S. import tariffs as soon as the agreement goes into effect. Therefore the expanding Israeli almond industry will have immediate, unrestricted access to the U.S market place. In recent years, Israel has demonstrated a growing interest and ability to export this product. While Israel will have the benefit of immediate free trade in the U.S. market, U.S. exporters will not be afforded the same consideration in the Israeli market. This imbalance demonstrates the inequities of the proposed agreement: the agreement opens the door to the U.S. market without ensuring a reciprocal opportunity for access to the Israeli market.

The California Almond Growers Exchange continues to have a strong interest in expanded trade with Israel. However, even with the eventual phase out of duties on almonds, we do not anticipate increasing almond exports to Israel because of preexisting non-tariff barriers. Under Article VI of the proposed agreement, Israel has the ability to maintain these non-tariff barriers which effectively neutralize any benefits of a duty free status for U.S. almond exports. Recent Israeli actions indicate a predisposition to protect its national industries by raising, rather than lowering, import restrictions. In light of this, we urge the Committee to ensure that the final agreement truly provides U.S. exporters with meaningful access to the Israeli market.

STATEMENT OF THE CALIFORNIA-ARIZONA CITRUS LEAGUE

This statement is being submitted by the California-Arizona Citrus League (the League) in connection with the March 6, 1985, hearing on the proposed U.S.-Israeli Free Trade Area Agreement. The League is a voluntary, non-profit trade association composed of marketers of California and Arizona citrus. It speaks on behalf of the California-Arizona citrus industry on matters of general concern, including legislation, foreign trade, and related topics. The League welcomes this opportunity to present its views.

In hearings last year before Congress, the International Trade Commission (ITC) and the Trade Policy Staff Committee, the League outlined its opposition to the legislation authorizing our government to negotiate a free trade area agreement with Israel. It was stated at the time and it remains our position that Israel should not derive the benefit of reduced or zero duty treatment of its citrus exports to the United States while it has usurped U.S. markets abroad by taking advantage of similar concessions offered by the European Economic Community (EEC), concessions that our government has challenged under the General Agreement on Tariffs and Trade (GATT). Congress agreed with our position during its consideration of the legislation authorizing our government to negotiate this agreement with Israel and, consequently, adopted the following amendment for that legislation: "The negotiation * * * shall take fully into account any product that benefits from a discriminatory preferential tariff arrangement between Israel and a third country if the tariff preference on such product has been the subject of a challenge by the United States Government under the authority of Section 301 of the Trade Act of 1974 and the General Agreement on Tariffs and Trade."

The legislative history accompanying this amendment demonstrates that the Congress specifically intended to safeguard the interests of the citrus industry until the resolution of the Section 301 case. The following statement by Senator Cranston on the Senate floor clearly makes this point: "To now grant duty-free status to Israeli citrus which benefits from discriminatory preferential trading agreements would undercut the ongoing U.S. efforts in the pending GATT case. Such action would grant a trade benefit in our domestic market to a citrus industry which has caused economic losses to our own citrus industry."

To our great disappointment, Israeli exports to the United States of most varieties of fresh lemons, oranges and limes will enjoy zero duty status by January 1, 1989 under the draft agreement. Duties on important citrus products such as, lemon oil, flavorings, extracts and pectins will be eliminated immediately. Given the economic and policy considerations noted above, which the Congress considered so important that it enunciated specific directives in the legislation authorizing the negotiation of the agreement, we find this result unacceptable as a direct reversal of clear legislative intent.

As this Committee knows, the U.S. citrus industry petitioned our government to challenge the EEC's extension in 1969 of tariff preferences to Mediterranean countries, most significantly Israel, on a wide range of imports, including citrus and citrus products. Since the implementation of these preferences, EEC imports of fresh oranges from the United States have dropped by over 30%. By contrast, U.S. orange exports to non-EEC destinations have increased by over 70%. EEC imports of lemons from the United States have dropped by over ⅓ during this period.

The U.S. government accepted our industry's petition, and has been pursuing the case for more than fourteen years under the dispute settlement provisions of the GATT. Since the Congress had its say on the proposed free trade area, a GATT panel issued a decision favorable to the U.S. citrus industry. Accordingly, the EEC was directed to take steps toward eliminating the preferences. The EEC is currently engaged in vigorous efforts to block the adoption by the GATT Council of the panel decision. The granting of the same type of preferences to Israel by the United States at this juncture will send misleading and damaging signals to the EEC, Israel, and the Council. Both our government and the U.S. citrus industry have devoted too much time and expense to this case to allow U.S. actions to negatively affect its outcome.

Given Israel's complicity in an illegal trading arrangement that has caused extreme hardship to our industry, it is wrong as a matter of policy to reward Israel with duty-free access to the U.S. market for citrus and citrus products. Such duty-free access will jeopardize the U.S. industry's home markets. Although Israel now supplies most of its agricultural products to the EEC, once Spain acceeds to the Community, Israel will rely more heavily on its second largest export outlet, the United States. An increase of Israeli citrus imports into the U.S. east coast can be expected if tariff preferences are extended to Israel.

There is no doubt that Israel's total production and export of citrus products will affect the domestic sales of the California industry. For example, during the 1982–83 season, the California-Arizona industry shipped approximately 70,000 cars of fresh oranges to the domestic market. Israel's production of fresh oranges that season amounted to approximately 50,000 cars, and its level of exports in the previous season amounted to approximately 28,000 cars. Since Israel does not import citrus, U.S. market losses would not be offset by trade liberalization in Israel.

As noted before, our government's arguments have prevailed in the GATT dispute settlement process. To institute any duty reduction on citrus or citrus products now would "snatch defeat from the jaws of victory" in the case. We believe that the policy and economic issues that we have raised today present compelling reasons for maintaining the current duty on citrus and citrus products from Israel. We urge the Committee to enforce the will of Congress, which has not been observed by our trade negotiators, by supporting a change in the treatment of citrus and citrus products under the proposed U.S.-Israeli agreement that would freeze duties at current levels.

STATEMENT OF GEORGE F. SORN, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, FLORIDA FRUIT & VEGETABLE ASSOCIATION

INTRODUCTION

The Florida Fruit & Vegetable Association (FFVA or Association) is a non-profit agricultural cooperative composed of growers, shippers and processors of Florida vegetables, tropical fruit, citrus fruit and sugar cane. It provides a medium for cooperative effort in dealing with public and private agencies to aid in the recognition and solution of industry problems.

The Association is organized to handle industry problems along both commodity and functional lines.

SUMMARY OF POSITION

FFVA fully supports the concept of free trade and the principles and goals enunciated for the U.S. and Israel in this Free Trade Area Agreement (FTA) of: promoting mutual relations, wishing to establish bilateral free trade between the two nations through the removal of trade barriers, wishing to contribute to the harmonious development and expansion of world trade and the like. However, such free trade (or trade liberalization) must also be fair trade and FFVA cautions Congress to carefully examine the FTA to ensure that a truly reciprocal agreement is being entered into.

After reviewing the draft agreement and the twenty-four page summary provided by the Office of the U.S. Trade Representative, FFVA has concluded that the FTA as drafted is unfair. FFVA has a number of concerns which need to be addressed and changed before it can support the FTA.

First and foremost, all subsidies and all trade barriers—not some as proposed—must be eliminated at once—not reduced or phased in as proposed. To do otherwise artificially creates and legitimizes unfair trade advantages to Israel's exports which advantages will be at the expense of the U.S. producers of competing products.

Secondly, import-sensitive commodities should be excluded from coverage of the FTA. We strongly believe that most if not all horticultural products should be excluded. This is especially true in this case since our government admits that the strongest Israeli export potential is in the horticultural area. We question the validity of ITC'S findings that some horticultural products are import-sensitive and others are not, especially since the ITC has not permitted the public to review and challenge the reasons for its conclusions. Decisions based on secret reasonings are antithetical to fundamental principles of fairness and due process and should be given little, if any, weight.

If horticultural products were not so sensitive why would the EC-Israel agreement have excluded agricultural products including horticultural products. As a poor alternative, all horticultural products should be placed in the fourth stage where duties are frozen for five (5) years. This is precisely what Israel has done in this FTA for most of its horticultural products. To do otherwise is simply unfair.

Thirdly, proper safeguards must be in place to permit U.S. citizens and companies to pursue legitimate claims under the trade remedy laws of the United States. The draft FTA provides an elaborate and time-consuming dispute settlement mechanism, involving notices, referrals to a Joint Committee or conciliation panel, which may establish its own rules of procedure. While the FTA supposedly does not affect the application of antidumping or countervailing duty remedies, it does not specifically address injury from imports of perishable agricultural commodities. FFVA believes it should.

FFVA believes that this Administration has set a precedent for dealing with imported perishable agricultural commodities and such procedure should be followed in this case absent compelling reasons not to. We refer to the fast-track relief proposed by the Administration in the Caribbean Basin Initiative, 19 U.S.C. §§ 2701 et seq. to address precisely the same issues and concerns raised herein. Congress agreed with this proposal and the CBI legislation was amended, passed and signed into law by President Reagan.

Nothing has changed since the passage of the CBI legislation which would dictate applying some other remedy concerning perishable agricultural imports from Israel. Moreover, neither party to the agreement would be prejudiced in any manner. In summary, there is no good reason not to amend this agreement to include the CBI fast-track relief provisions. Indeed, there is strong recent precedent for so doing.

In addition, and significantly, the U.S. Department of Agriculture in testimony by Under Secretary Alan Tracy to Mr. Gibbons' Subcommittee on Trade agreed that the fast-track relief would be appropriate for this FTA.

Why was this recommendation rejected?

Relatedly, in December of 1983, USDA prepared a report assessing the economic impact of the FTA on U.S.-Israeli Agricultural Trade.[1]

Excerpts from this report clearly show that Israeli agricultural exports have been increasing rapidly and have great potential for damage to domestic industries if the FTA is implemented.

For example, this report notes Israeli horticultural and tropical products (HTP) exports to the United States since 1975 "have grown on average of 26-percent a year in value since 1975 versus growth of only 10-percent for Israeli HTP exports to the rest of the world. Clearly the U.S. is becoming an increasingly important market for Israeli HTP exports. For this reason, special attention should be focused on this group for possible injury to domestic industries from implementation of the FTA."

The report concludes, "[w]ith 87-percent of U.S. purchases of Israeli agricultural products occuring [sic] in HTP products, it is the primary area to focus attention for possible market disruption and injury to the domestic industry."

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[1] This report, like the ITC report, was not made available to the public.

Finally, the author notes particular problems with citrus juice, nursery products and canned tomato products and recommends that such products be protected under a "fast-track" provision similar to that used in the CBI.

For such products as these and others such as avocados,[1] peppers, artichokes and olives, which appear to have been arbitrarily assigned to various stages in the FTA. FFVA strongly urges that the FTA be amended to include CBI fast-track relief. The domestic industry needs it and Israel won't be hurt by it.

CONCLUSION

The Florida Fruit & Vegetable Association believes that the U.S.-Israel Free Trade Area Agreement as drafted does not adequately protect, or provide the best mechanism for addressing, the legitimate concerns of the domestic horticultural industry. In addition, the FTA as written does not eliminate all trade barriers and subsidies immediately or equally. Thus, it is neither fair nor reciprocal.

As written, FFVA cannot support this arrangement. Against the background that the U.S. government likely will give outright to Israel some $5 billion this year alone, we see no need for this agreement not to treat both parties absolutely equally. It does not, and it's up to Congress to see that it does.

STATEMENT OF WAYNE HAWKINS, EXECUTIVE VICE PRESIDENT, FLORIDA TOMATO EXCHANGE

The Florida Tomato Exchange, headquartered in Orlando, Florida is a non-profit agricultural trade association whose members ship a substantial volume of the fresh tomatoes from Florida.

SUMMARY OF STATEMENT

The Florida Tomato Exchange ("Exchange") opposes the implementation of the U.S.-Israeli Free Trade Area (FTA) at least as it pertains to tomatoes and other import sensitive horticultural products.

DISCUSSION

The Exchange believes the FTA is not justified on economic grounds, benefits Israel by far over the United States, and the burdens will be borne unfairly by certain U.S. segments whose products (and labor) compete with Israeli imports.

It is more than ironic at a time when U.S. farmers are seeking aid from our government and are being turned down flat, that our same government is digging deep into its (our) pockets to provide tremendous amounts of direct grant monies to the Israel government, while at this same time, this FTA unfairly legitimizes a mechanism by which subsidized exports from Israel can be granted free access to our markets.

We suggest Congress would be remiss in its responsibilities if it does not demand assurance that:

1. All import-sensitive items[2] specifically including tomatoes are excluded from the FTA. Alternatively, and at a minimum, tomatoes and such products should be placed in Stage 4.

2. Alternatively, and again at a minimum the FTA should not take effect until *all* subsidies and *all* trade barriers are removed. The draft FTA (ANNEX 4) states that Israel will, inter alia, "not * * * increase the level of subsidization for certain programs above the level of July 11, 1984" (emphasis added); and, in four specific programs (Export Shipment Fund, Export Production Fund, Imports for Export Fund and Medium Term Capital Goods Export Credits), the Government of Israel will get around to elimination of the admitted subsidy over a six year period. What happens in the meantime? What happened to the other export subsidy programs previously found by the ITC to be countervailable: The Encouragement of Capital Investment Law, Government-Guaranteed Minimum Price Program, preferential short-term financing, government funding of AGREXCO, cash payments to growers for greenhouses, cash payments to packing houses, fuel grants to growers, a capital fund for

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[1] FFVA endorses fully the statement made to this Committee by the California Avocado Commission.

[2] Tomatoes previously have been determined by the International Trade Commission to be import-sensitive in the context of the Generalized System of Preferences. We are aware of no change which would result in a different conclusion.

AGREXCO, long-term loans for AGREXCO, and others such as subsidized shipping rates on El AL, also funded by the government.

In addition, it appears that the Israeli government has not committed to the immediate lifting of all restrictions such as license requirements on U.S. exports to Israel.

Such actions are not reciprocal and are not fair.

3. In any case, and at a minimum, for perishable commodities the FTA should be amended to provide a fast-track CBI-type relief in lieu of the dispute resolution process envisioned in the draft (Article 19), which is wholly inadequate to deal promptly with perishable commodity problems. Such advice was specifically given on May 22, 1984 to the Subcommittee on Trade by Alan Tracy, Deputy Under Secretary, International Affairs and Commodity Programs, USDA.

Mr. Tracy reported that "[a] mechanism such as the 'fast track' provision included in the Caribbean Basin Initiative statute, I believe, would provide domestic horticultural growers with timely legal redress from a possible surge of perishable product imports from Israel under the FTA."

We suggest Congress was right in the CBI legislation and these provisions should be adopted in the FTA as recommended by our own U.S. Department of Agriculture. More importantly, we believe the facts, law and logic support a defined and, most importantly, a timely remedy for an injury, not dispute resolution procedures with elaborate time-consuming steps, such as referring a dispute to a conciliation panel which then issues a report. The bottom line is that the "affected party shall be entitled to take any appropriate measure"—including none at all. As found by Congress in the CBI legislation, traditional countervailing duty and anti-dumping remedies simply do not provide timely or adequate relief in perishable agricultural actions.

TOMATOES

Apparently, the ITC has determined that many horticultural products are not import-sensitive in spite of past decisions to the contrary and convincing evidence presented to it.[2] We suspect the real basis for this conclusion for many products is that the ITC does not believe Israeli exports are capable of causing or threatening to cause material injury to a domestic industry.

We suggest for fresh tomatoes (and most likely for many other commodities) the ITC is simply wrong.

For tomatoes (fresh or chilled), U.S. imports from Israel in 1979 were valued at 0, in 1980—0, in 1981—$70,000, in 1982—$66,000 and in 1983—$67,000. In pounds, Israel exports about 3,500 tons. These appears to be relatively small numbers, however, several recent factors must be added to these figures.

Israel has targeted the U.S. to increase its market share of tomatoes and to use tomatoes as a springboard for other exports to the United States. So said Amotz Amiod, manager of AGREXCO in a February 23, 1985 article in the Packer. Moreover, Mr. Amiod reports for the 1984-1985 season that AGREXCO will spend in the United States $150,000 to promote fresh tomatoes. $150,000 in promotion for a $67,000 return—sounds like a subsidy to us. Or, more disturbingly, it appears Israel through its agent, AGREXCO, intends to increase substantially its share of the U.S. market in tomatoes. There is no doubt that such increases, artificially spurred by subsidies and allowed by this FTA, will be at the expense of the Florida tomato growers.

We firmly believe that tomatoes are by any definition import-sensitive. Moreover, it is clear that Israel intends to enter the U.S. market, whether it materially injures or threatens to insure a U.S. industry remains to be seen; we believe it will; and, it is clear that the draft FTA provides us with less, not more, protection under the trade remedy laws. We don't believe the FTA is the best way to liberalize trade between the countries; but if for political reasons the FTA is going to be adopted, at least let us keep the same remedies we now have, make it fair and the same for both sides at the same time; i.e., remove and delete all barriers and all subsidies equally at the beginning of the arrangement.

CONCLUSION

The Florida Tomato Exchange objects to the United States-Israel Free Trade Area Agreement as drafted. It impacts adversely and unfairly on growers of import-sensitive commodities like tomatoes, does not eliminate subsidies and trade barriers, and emasculates trade remedy laws when for perishable agricultural commodities they should be strengthened as recommended by the U.S. Department of Agriculture and as exist in the CBI legislation. Like the CBI legislation, the Exchange supports helping our neighbors and allies; however, unlike the CBI, this draft agreement does not provide timely meaningful redress for unfair trade practices concerning perishable agricultural commodities. Indeed, Israeli subsidies and barriers to entry are allowed to continue at our expense.

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[2] Since the bases for the ITC determinations are unknown, we cannot challenge them here; however, it is suggested because the reasoning has been kept secret these determinations be given little, if any, weight.

It is time for Congress to critically scrutinize this Agreement and make the changes suggested which are necessary to make the Agreement reciprocal and fair as intended.

STATEMENT OF MITCHELL J. COOPER, COUNSEL, FOOTWEAR DIVISION OF THE RUBBER MANUFACTURERS ASSOCIATION

The Footwear Division of the Rubber Manufacturers Association is the spokesman for companies producing the major share of the waterproof footwear and rubber-soled fabric-upper footwear manufactured in this country. When the issue of whether there should be authority to negotiate a free-trade agreement with Israel was before the Congress, the rubber footwear industry, in testimony before both the House Committee on Ways and Means and the Senate Committee on Finance, took the position that the grant of such authority should exclude the right to negotiate any reduction in the duties on those rubber footwear items described in TSUS numbers 700.51, 700.52, 700.53, 700.57, 700.59, 700.61, 700.62, 700.63, 700.64, 700.67, 700.69 and 700.71.

When the issue was before the International Trade Commission we urged that body to exclude rubber footwear from the coverage of any United States-Israel free-trade agreement. And when the issue was before the Trade Policy Staff Committee of the United States Trade Representative we took a similar stand.

The essence of the rubber footwear industry's position then, as it is now, was that, despite duty levels ranging from 20% to in excess of 60% this domestic industry has shrunk considerably as import penetration has increased. Its current employment is approximately 14,000 production workers and has shown a decline each year for at least the past ten years. Imports of both waterproof and fabric-upper footwear have captured in excess of 60% of the American market.

The seriousness of the rubber footwear industry's import problem has been recognized by the Government time and again: The industry's duties were not cut in either the Kennedy Round or the Tokyo Round; the products of this industry have been excluded by the statutes governing both General Statutory Preferences and the Caribbean Basin Initiative; in 1981 and again in 1983 the Defense Department studied the industry and concluded that "if we lose one or two of the major domestic suppliers it would jeopardize our peacetime supply capacity"; in 1981 the Department of Commerce issued a report on domestic and import competition in the rubber footwear industry which noted the steady decline in domestic shipments and the steady increase in imports of rubber-soled footwear with fabric uppers over the past several years, and in January, 1985, the General Accounting Office issued a report on the U.S. Footwear Industries' Ability to Meet Military Mobilization Needs, and called attention to the likelihood that what is left of the rubber footwear industry might not be able to meet mobilization needs for rubber combat footwear.

All of these facts were known to the negotiators of the free-trade agreement with Israel. Nonetheless, they saw fit to agree to stage this industry's duties to zero within a period of five years. Having lost the battle for exclusion, we had pleaded with our negotiators for a ten-year staging. At no time did representatives of our Government dispute the merits of our position. At most they asserted that Israel is not currently a competitive threat to this industry and is not likely to become one. But they gave us no basis for such an assertion, and no rebuttal of our view that the elimination of duties on rubber footwear would provide Israel with a significant incentive to manufacture and export the labor-intensive products of this industry.

If our prediction of significant Israeli exports of rubber footwear is warranted, a ten-year staging period would be far more appropriate that the agreed-to five years. If our prediction is unwarranted, the length of the staging period should be a matter of little concern to the Israelis. In either case, one would have thought that our Government would have shown greater sensitivity to the survival needs of this small but vital domestic industry.

Accordingly, we urge this Committee to return the United States-Israel free-trade agreement to the negotiators with an indication that its ultimate approval will depend in part on the extension of the staging period for the rubber footwear products enumerated herein to a minimum of ten years.

STATEMENT OF LEWE B. MARTIN, COUNSEL, MANUFACTURING JEWELERS & SILVERSMITHS OF AMERICA

The Manufacturing Jewelers and Silversmiths of America (MJSA) has previously submitted its views in opposition to the inclusion of jewelry related products in any bilateral free trade agreement between the United States and Israel (Senate Finance Committee, February 6, 1984; and, U.S. International Trade Commission and U.S. Trade Representative, April 3, 1984).

The MJSA urges the Committee on Ways and Means to take notice that this stated policy is not limited to an agreement with Israel alone. Rather the MJSA or spokesman for the domestic jewelry industry states its opposition to the inclusion of jewelry related products in free trade area agreements negotiated with any country. Such a statement on the part of MJSA appears necessary because of the recent statement made by Ambassador William E. Brock that he hoped that the United States would negotiate free trade agreements with other countries. It is the view of MJSA that jewelry related products are import sensitive not only as to Free Trade Area Agreement with Israel but should be so determined as to other countries, particularly those countries which are promoting exports by the use of low wage employment and subsidies.

MJSA is the principal national trade association representing approximately 2200 manufacturers of precious metal and costume jewelry, as well as findings, chain, and other Jewelry-related products. MJSA members employ about 87,000 persons throughout the United States. More than one-third of these companies, employing approximately 23,000 persons, are located in the State of Rhode Island.

On March 1, 1985, the Office of the U.S. Trade Representative released a Summary of U.S.-Israel Free Trade Area Agreement. The following was contained in the Summary:

"C. U.S. treatment of categories of products of particular interest to Congress

"The following summarizes the way U.S. duty reductions are planned for certain products or product categories which were highlighted during Congressional debate of the U.S.-Israel Free Trade Area. All references to trade value are for U.S. imports from Israel in 1982.

"Products Identified by the U.S. International Trade Commission as Sensitive in the Context of this Agreement.

"The USITC identified seven categories of products as potentially sensitive in the context of this agreement. These products were: processed tomato products; certain categories of olives, dehydrated onions and garlic, citrus fruit juices, cut roses, certain bromine products; and certain gold jewelry (chains). These products, which compose the fourth stage under the Agreement, will face no duty reduction for the first five years of the agreement (January 1, 1990), at which time the President will request further advice from the USITC on how duties on these products should be eliminated.

* * * * *

Gold Jewelry—All gold jewelry items identified by the USITC, valued at $44 million in 1982, are in the fourth stage, while the remaining gold jewelry items which are generally GSP-eligible (and were not identified as sensitive by the USITC) fall into the immediate stage."

While the MJSA concurs with the identification by the USITC of certain gold jewelry (chains) as sensitive in the context of the agreement it urges that the USITC erred in not identifying other gold jewelry including TSUS 740.14 as similarly sensitive.

Gold jewelry, other than necklaces and neck chains, is classified for Customs purposes in TSUS 740.14. Articles such as rings, ear rings and clips, bracelets, brooches, cuff links, studs, pendents, etc. are included in this TSUS Item. The following table shows the trend of imports of such gold jewelry from Israel over the five year period 1980/84. Also included is the average price of gold for each year. An index using 1980 as the base year is included for both data.

IMPORTS OF GOLD JEWELRY FROM ISRAEL CLASSIFIED UNDER TSUS ITEM 740.14, 1980–84

[In thousands of dollars]

	1980	1981	1982	1983	1984
Imports	$10,636	$32,048	$44,185	$48,028	$51,992
Index	100	302	416	452	489
	Average price of gold dollars per troy/ounces				
Price	613	460	380	410	350
Index	100	75	62	67	57

It is obvious that the value of imports of gold jewelry from Israel has increased almost five fold in the five years 1980/84. In the same period the average annual price of gold has declined 43%.

While the displacement of the value of gold jewelry sold by the domestic industry is important in measuring sensitivity, unit displacement is a more important factor especially when related to employment and man hours. When a declining price of gold (which is traded at a world price) is related to an increasing value of imports the result is a larger percentage increase in unit imports.

This increase in imports of gold jewelry is not surprising as the Israeli Government and jewelry industry sources continue to highlight the importance of the United States in their overall marketing plan. Nella Yaacobi, director of Israel Export Institute's Jewelry Center, was reported as predicting in the fall of 1983 that the nation's total exports of gold jewelry in that year were expected to exceed $130 million, of which more than $100 million (or 77 percent) was exported to the U.S. Confirming that exports to the U.S. now form the backbone of the Israeli industry, the same source acknowledged that 85 percent of the country's total jewelry production is now exported.

The jewelry industry in Israel reportedly includes 140 firms, of which 131 are involved in exporting. The five largest firms provide 70 percent of exports, while 126 smaller firms combined have an export volume of $13 million to $35 million per year.

Imports of precious metal jewelry from Israel have continued to increase their penetration of the U.S. market place jumping from $48.8 million in 1980 to $114.5 million in 1984. Gold jewelry accounts for the largest percentage of these imports expanding from 76 percent in 1980 to 90 percent in 1984.

While gold necklaces and neck chains[1] were the predominant export of gold jewelry to the U.S. in the 1970's, this trade has seen a marked change as exports of other gold jewelry has grown at a more rapid rate than chains. It is estimated that gold chain accounted for 97% of Israeli exports of gold jewelry to the U.S. in 1978–79. This share has dropped to 49.4 percent in 1984. Exports to the US of other gold jewelry included in TSUS 740.14, have experienced a growth rate double that of chains and have increased from 21.7 percent of imports of gold jewelry from Israel in 1980 to 50.6 percent in 1984.

IMPORTS OF GOLD JEWELRY (INCLUDING CHAINS) FROM ISRAEL, 1980 TO 1984

[In thousands of dollars]

TSUS items	1980	1981	1982	1983	1984
740.11–13:					
740.70	26,631	45,749	45,076	44,776	50,708
Percent	71.5	58.8	50.1	48.2	49.4
740.14	10,636	32,048	44,185	48,028	51,992
Percent	28.5	41.2	49.9	51.8	50.6
Total	37,267	77,797	89,261	92,804	102,700
Percent	100.0	100.0	100.0	100.0	100.0

Source: U.S. Department of Commerce, Bureau of Census IM 146.

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[1] TSUS Items 740.11-740.13 and 740-70. Prior to 1980, chain was not broken out separately in the TSUS from other gold jewelry.

Precious metals analyst Mark Delevan Harrop has reported that Israel continues to emphasize new, less costly, mass-produced machine-made rope chains in its U.S. marketing program.[1] At the same time, Beny Pomerantz, Director, Jewelry, Giftware, and Light Industries for Israel's Ministry of Trade, was recently quoted by U.S. trade press sources as having emphasized government encouragement for growth in non-chain-related sectors of the Israeli jewelry industry. Large factories are now reported producing jewelry mounted with precious and semi-precious stones intended for export to the U.S., Europe and Japan.[2]

It would appear, then, that with encouragement from the government of Israel, jewelry manufacturers have begun to diversify their production, while at the same time maintaining production of mass-produced machine-made chain of various types which qualify for duty-free treatment under the GSP. Overall industry production has apparently been adjusted in such a way as to make best use of tariff preference arrangements and domestic labor supply.

Imports of precious metal jewelry from all countries have already captured a significant share of the U.S. market. Any action such as the immediate elimination of duties on TSUS Item 740.14 in the proposed Free Trade Agrea Agreement with Israel will have a significant adverse impact on the segment of the domestic industry producing such gold jewelry.

[The MJSA is well aware that U.S. imports of gold jewelry from Israel classified under TSUS 740.14 are currently duty free under the Generalized System of Preferences. However, this duty free access is limited in dollar value by the competitive need regulations. In 1984, the regulations provided that when imports of a TSUS item from a single eligible GSP country reached $63.8 million import duties would be reimposed during the next importing year. The FTA agreement provides that imports from Israel included in the First Stage, as are imports classified under 740.14, would not be subject to the GSP annual dollar limit. Imports under TSUS Item 740.14 amounted to $52 million in 1984. It is anticipated such imports will soon exceed the competitive need limit. It should be noted that the Trade and Tariff Act of 1984 established new limitations on preferential treatment which could affect U.S./Israel trade in gold jewelry.]

In addition, while the impact of the elimination of duties on TSUS 740.14 would primarily concern manufacturers of gold jewelry classified in this TSUS Item the long-term impact could negatively affect the manufacturers of necklaces and neck chains whose products are included in the Fourth Stage. The Committee should be advised that current export articles from Israel to the U.S. contain finished jewelry incorporating gold chains of the kind included in the Fourth Stage TSUS Items 740.11-13 and 740.70. These imports are classified under the blanket category for gold jewelry, TSUS item 740.14. Imports of gold chain classified under 740.13 amounted to $45.3 million in 1984. The competitive need dollar limitation could well apply to these imports before 1990 giving a strong impetus to add a pendant to such chains and enter the article under TSUS Item 740.14.

As to the impact of imports on the domestic precious metal jewelry industry, the Committee should consider a recent publication of the U.S. Department of Commerce which concluded:

"All of the industries that produce jewelry and housewares felt the impact of rising imports in recent years.

"Strongly affected by the high value of the U.S. dollar relative to other currencies, imports of both, precious metal and costume jewelry were up sharply during 1984 while exports for both types of jewelry declined.

"U.S. import of precious metal jewelry increased an estimated 29 percent to $1,125 million.

"The major suppliers were Italy, Israel and Hong Kong.

"Imports are expected to continue to increase their market share." (1985 U.S. Industrial outlook. U.S. Department of Commerce, January 1985, at p. 9 48-1-3.)

The MJSA respectfully requests that the Committee on Ways and Means exercise its oversight responsibilities in the negotiation of the Free Trade Area Agreement with Israel and include gold jewelry classified in TSUS 740.14 in the Fourth Stage—Five Year Freeze On Duty Reductions.

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[1] Gerwitz Report, (November, 1983), p. 4

[2] National Jeweler Newsletter, (January, 1984).

STATEMENT OF THE NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE

This statement is being submitted by the National Association of Growers and Processors for Fair Trade (the Association) in connection with the March 6, 1985, hearing on the proposed U.S.-Israeli Free Trade Area Agreement. The Association appreciates this opportunity to present its views regarding the operation and impact of the proposed agreement on its members.

The National Association of Growers and Processors for Fair Trade is a unique organization. For the first time, tomato growers and processors have joined together in an organization that is national in scope to address issues vital to their continued existence. The Association has members from coast to coast, representing every tomato producing state in the country. The views we present reflect the common concerns of this diverse membership.

Last year this Association came before this Committee, its Senate counterpart, and the International Trade Commission (ITC) to argue the case of a depressed industry being injured by rapidly increasing imports in its home market. At that time, we urged that processed tomato products be exempted from any free trade agreement with Israel. It soon became clear, however, that although there was sympathy for the plight of our industry, for political reasons a flat exemption for any trade item, however import sensitive, would not be created. Nonetheless, we were told that we had "made our case" before the ITC, whose report would have great influence over what degree of protection our industry would receive under the agreement.

The ITC issued its report last June. It disturbed us that that report was kept confidential, preventing our industry and others from evaluating its conclusions and responding to them. It was even more disturbing to find that certain interested parties were able to obtain copies of the report, despite its confidentiality, and presumably use it to their benefit. Given that the negotiations have been completed, we now respectfully request that the International Trade Commission report be made public.

It was only with the recent public release of the draft U.S.-Israeli Agreement that we could confirm the nature of the ITC's findings with regard to our industry. Within the confines of the draft agreement, our industry cannot complain that we were awarded less favorable treatment than any other party. It is apparent that the ITC and our trade negotiators have acknowledged that our industry is highly import sensitive and, therefore, deserving of at least a five-year freeze on duty reductions for its products.

There is one major aspect of the agreement that is unclear to us at this time. Although the agreement calls for the President to seek additional advice from the ITC at the end of the five-year freeze on duty reductions, it is not clear how this evaluation process will work. This issue is of great concern to our members. If the domestic tomato processing industry sets forth strong evidence as to our import sensitivity to the International Trade Commission five years from now, we believe that our industry should be able to maintain our duties until January 1, 1995.

This issue was unequivocally addressed in the following colloquy between Senator Wilson and Senator Danforth during the congressional debate on the Free Trade Area:

Mr. WILSON. * * * It does not make sense to eliminate tariffs on goods, when that elimination will, according to the ITC, have significant adverse economic impact on the U.S. industries producing those goods.

* * * * *

It is my position that the ITC should have continuing review responsibility, at five year intervals, over articles which are likely to be affected by a Free Trade Agreement. Should the ITC make a finding that goods were no longer import sensitive, the President would have the authority to negotiate duty reductions on them. However, if the ITC found continued sensitivity, the President would have no such authority.

Mr. DANFORTH. Mr. President, if the Senator from California will yield, I should like to express my full support for the position he is taking. . . . Certainly industries which are subject to significant adverse economic impact from increased imports from the goods they produce should not subjected to the elimination of duties on those goods. * * * It is my intention * * * that as long as the ITC finds that certain goods are import sensitive, it would be inappropriate to reduce duties on them.

Clearly, there should be no doubt about where congressional sentiment lies on the this issue.

If current import trends for processed tomato products persist, and it is likely that they will, then our industry will be in no better position in 1990 to absorb the impact of a duty reduction on such products than it is now. Indeed, it is likely that our industry will be in a worse position five years from now. We agree with the legislative history that if an industry is being afforded duty protection now because the ITC has determined it to be import sensitive, it is only logical that such a protection should continue if, after five years, the situation of the industry has not improved or, as we expect, has worsened.

Even without duty reductions, Israel will, no doubt, continue its' rapid growth in the U.S. market. Imports of canned tomatoes from Israel have increased from approximately 4,150,000 pounds in 1980 to almost 35,000,000 pounds in 1984. Comparing the same two years, imports of tomato paste have increased from approximately 315,000 pounds to almost 12,600,000 pounds, and imports of tomato sauce have increased from approximately 1,300,000 pounds to almost 18,275,000 pounds. We have no reason to believe that this trend will not continue.

Israel has been able to capture an increasing share of our market because its tomato processing industry is highly subsidized, either through export or production subsidies. These subsidized imports from Israel, and other major suppliers such as the European Community, threaten the U.S. tomato processing industry. We are willing to compete fairly with these foreign competitors, but our industry does not receive any government subsidies or assistance. Therefore, our industry must retain our modest duties until such time as we are able to defend ourselves from subsidized imports.

According to the draft agreement, export subsidies would presumably be eliminated by the end of six years. However, the Israelis will still be able to retain their production subsidies. The draft agreement provides no assurances that the Israeli government will halt its direct subsidy or aid programs to its tomato processing industry. This is an additional reason why it is necessary to maintain our duties for the entire ten-year period.

In summary, we respectfully request that this Committee ensure that the tomato processing industry be given, in accordance with the agreement, a fair chance to demonstrate our case to the International Trade Commission prior to the second phase of the ten-year period. If the domestic tomato processing industry continues to be sensitive with respect to Israeli imports, our industry should be able to maintain the current duties until January 1, 1995. To do otherwise would undermine congressional intent as set forth in House and Senate colloquies on this subject and would cause the ITC reexamination in five years to be meaningless.

The National Association of Growers and Processors for Fair Trade thank the members of this Committee for their attention to this critical issue.

STATEMENT OF GARY KOMAROW, COUNSEL, SLIDE FASTENER ASSOCIATION, INC.

INTRODUCTION

The Slide Fastener Association, Inc. would like to take this opportunity to express its concern relating to the United States-Israel Free Trade Agreement, and particularly its effect on the American zipper industry.

The Slide Fastener Association, Inc. was founded in 1946. It currently consists of eight members whose production accounts for 85 percent of the American zipper industry.

Historically, the SFA has been concerned with increased import penetration in the American zipper market, which threatens to destroy the entire American industry. The agreement recently negotiated between the United States and Israel would reduce duties on imported zippers to zero immediately upon implementation. Without this tariff protection, the entire U.S. industry could be wiped out in a matter of months. The SFA protests this Administration proposal, and asks that the Congress take immediate action to preserve what is left of a shrinking industry.

NATURE OF THE INDUSTRY

Zippers are used as a closure devices for a wide variety of articles, including wearing apparel, footwear, luggage, etc. Zipppers are made from metallic and non-metallic materials. The American zipper industry was founded in 1983, and has been in direct competition with foreign manufacturers since the 1930's. As late as 1981, there were approximately 80 zipper manufacturers in the country, most of them being small shops located in the garment districts of New York and Los Angeles.

The four largest producers of zippers account for approximately 90 percent of production.

U.S. consumption of zippers is between $180 and $200 million annually. The industry is highly cyclical, and fluctuates as fashion trends dictate increased or decreased use of zippers in jeans, outerwear, and similar goods. Thus, between 1977 and 1981 there was a sharp increase in U.S. zipper consumption, whereas since 1981, there has been a corresponding decrease.

THE IMPORT PROBLEM

In 1984, the U.S. imported approximately $14.5 million worth of zippers. In contrast, zipper exports were only a little over $8 million.

This tremendous trade imbalance has caused a sharp reduction in industry employment. Since 1972, the number of employees in the slide fastener industry has been cut in half, from 7,280 to approximately 3,500.

With this background, the elimination of tariffs on Israeli zippers can be fully appreciated. It is easy to say that Israel is a small country, and that Israeli zipper imports are an insignificant part of the overall problem. However, the fact of the matter is that a single Israeli company could produce as many zippers as the entire U.S. industry currently produces for domestic consumption. The impending elimination of all tariff barriers on Israeli zipper imports could easily wipe out the U.S. zipper manufacturing industry. If this were to occur, the members of our Association would be reduced to mere sales and marketing organizations for overseas manufacturers. Thousands of domestic manufacturing jobs would be lost in this process, and an entire industry would be wiped out.

We therefore appeal to the Ways and Means Committee to reject the Administration's proposal and retain the duties on Israeli zippers at current levels.

STATEMENT OF DR. THOMAS R. STAUFFER

I am offering this testimony in my private capacity as an economic consultant and writer specializing in contemporary economic issues in the Middle East. Until last semester I was a visiting professor at the Diplomatic Academy in Vienna and prior to that was a lecturer and research associate in the economics department and Center for Middle Eastern Studies at Harvard University.

I urge that the proposed "free-trade" agreement be suspended until key questions are clarified and until existing disadvantages for the United States are rectified.

This agreement is not a cost-effective device to increase US trade with Israel. It will cause still more American jobs to be lost—above and beyond the 75,000–150,000 already lost through the aid/trade package presently operative with Israel.

The proposed agreement increases both one-sided advantages for Israel and the real disadvantages for the US, and it is necessary to recognize several unusual and key aspects of the US-Israeli economic relationship:

(1) The US and Israeli markets are strikingly asymmetrical; what the US offers is much greater than what it receives.

Under the agreement, a vast $2,000-plus billion market is being given to israel, while we are promised in return access to a minor, twenty-billion dollar market.

The difference is 100-to-one in Israel's favor, and this dramatic disparity in the scale of the markets is simple but indicative evidence of the lack of reasonable balance in the proposal.

(2) Israel does not pay for its imports from the United States. Our balance on current transactions with Israel is extremely one-sided and unfavorable to the US Israel's imports from the US are much less than total US aid to Israel, so that the present arrangement—under which Israel is free to take US aid and import from our competitors—amounts to the export of US jobs.

This aid/trade deficit is large, endemic, and serious—especially when compared to our trade patterns with other countries which receive no aid and pay for our exports to them.

For 1983, the most recent year for which figures are available, the effective deficit on current transactions is between $3.5 and 4 billion—to Israel's advantage and to our disadvantage.

This is equivalent to a loss of some 100,000 American jobs, without any allowance for the likely multiplier effect under today's circumstances where unemployment in the US is high and industrial capacity utilization is low.

(3) Israel's exports are highly subsidized, so that US aid money or technical assistance (largely military) in effect directly undercuts our own industries.

Subsidies are large and pervasive in Israel, and the Central Bank of Israel reports overall levels of subsidy exceeding 20–25% of value-added. These subsidies are both industry-specific and structural, as in the case of the virtually costless capital embedded in the water projects, from which agricultural exports benefit, or the low effective tax rates, which lower real industrial costs.

It is correct that US exports do not have their proper share of the Israeli market—but the proposed free-trade area is a step in the wrong direction and worsens the situation it is alleged to rectify. Our exports are inappropriately low because Israel uses US aid money to buy non-US goods and services.

The fair level of US exports to Israel should be at least equal to total US aid appropriations in each year. In fact it should be higher, since countries which do not receive US aid also import from the US so that our proper share of the Israeli market should equal our gross aid in each year, plus some reasonable fraction—between 12 and 20%—of those imports for which the Israelis actually pay, since we typically supply that fraction of most markets in "friendly" states.

Further, with regard to imports from Israel, US manufacturers and farmers should retain full protection against dumping by Israel of subsidized products into our markets—protection which could be lost under the proposed agreement unless it contains iron-clad provision for measures no less effective than those available today in such cases. There seems to be great risk that the agreement could foreclose those last measures protecting US workers.

Therefore, in order to protect against further losses of US jobs to Israel, and in order to regain some of those already lost, I propose three measures which are much more effective in improving the US-Israeli trade balance:

1. Require that all US aid be tied to purchases of US goods, exclusive of any debt service payments to which Israel is contractually committed.

This is usually required of all other major aid recipients and maximizes protection to US workers. The aid still is a real cost to the US, but at least US goods are involved.

2. Insure fair trade by more careful review of Israel's export and other subsidies and applying countervailing tariffs where appropriate, as appears to have been done already in at least one case.

This would put US workers then on a more equal footing with their highly subsidized counterparts in Israel.

3. Control use of Israel's free access to US military technology in order to prevent our aid programs subsidising Israeli weapons and military equipment firms to undercut our own manufacturers for third-country markets.

This is a third area in which Israeli firms have gained an unfair advantage over our own companies and where we have another opportunity to protect US jobs.

The proposed free-trade agreement is a misnomer, since it in fact reinforces an unfair and unequal trading relationship by further increasing advantages for Israeli vis-a-vis American workers. Given our alarming balance of payments deficits, and given the still high numbers of unemployed workers in the U.S., it is the wrong time to jeopardize still more US jobs and risk still greater dollar outflows.

It is clear that Israel wants to increase its economic privileges, but it is equally clear that this is at the expense of the American worker and the American taxpayer.

STATEMENT OF DAVID J. STEINBERG, PRESIDENT, U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

Now that a U.S.-Israel free trade area has been negotiated, I support its implementation, notwithstanding my reservations about strictly bilateral U.S. initiatives seeking free trade—be the other part Israel, Canada, a group of Arab countries, or anyone else. I strongly urge—indeed, our Council may well be the only such advocate—an explicitly free-trade initiative on the part of the United States. But such a policy should be multilateral in conception, even though something far less than a broadly multilateral arrangement—even as limited as a free trade area with only one country—may be the initial result of the far-reaching initiative that should be undertaken. In other words, the United States should have invited the more advanced countries of the world to join with us in programming a free trade area—expressing our readiness to negotiate such an arrangement with as many countries as may care to go this route with us in accordance with a realistic timetable. If Israel turned out to be the only country willing to proceed immediately to negotiate such an arrangement (as might well have been the case), so be it.

I shall not here elaborate on the many facets of the free-trade strategy I have in mind. I shall only mention, in passing, that the broad free trade area I envisage would provide special privileges (without seeking equivalent reciprocity until some distant millennium) to less-developed countries prepared to make significant commitments commensurate with their economic capabilities. The arrangement would program achievement of totally fair trade as well as totally free trade (objectives I regard as indivisible). And the free-trade strategy in foreign economic policy should be backstopped in domestic economic policy by a coherent adjustment, full-employment strategy essential to securing and sustaining U.S. commitment to a trade policy conceptionally so advanced and politically so controversial.

Since the agreement with Israel has been negotiated (albeit strictly bilateral in original conception), every effort should be made to make it work, not only in the best interests of both countries, but as a prototype for a more far-reaching free-trade initiative in the near future, pitched to a much larger array of countries. Certain aspects of the present free-trade agreement, however, cause me concern.

Although the agreement programs the mutual removal of all tariffs affecting trade between these two countries in delineated stages over a 10-year period (purportedly facilitating adjustment), and retains in some degree the applicability of import-relief remedies to possible contingencies of import-related dislocation attributable to removal of these barriers, I do not feel that the U.S. government has been sufficiently attentive to the adjustment problems that may befall weak U.S. industries which may be especially sensitive to progressively freer (ultimately unrestricted) imports from Israel. For example, the government should be moving right now to assess the real problems of these industries, including reassessment of all statutes and regulations materially affecting the ability of these industries to adjust to the removal of these import restrictions. Any inexcusble inequities should be corrected forthwith. Both countries should be taking measures calculated to preclude, at least minimize, recourse to the loopholes that leave the door open for restoration of trade barriers in certain cases.

My concerns also include disappointment that, although all tariffs affecting trade between these countries come within the purview of the agreement, not all nontariff barriers are covered. For example, import quotas on textiles and apparel could still be imposed under the multifiber agreement (although no such quotas now exist on imports from Israel). Thus, the free-trade agreement with Israel is less than the totally free-trade arrangement it ought to be (even as a strictly bilateral proposition). A coherent U.S. textile strategy addressing the real problems and needs of the U.S. textile/apparel industry—a policy we have never had and do not appear to be contemplating—could have equipped the United States to bring textiles and apparel within the scope of this free-trade agreement.

The United States lacks, and urgently needs, a coherent adjustment/redevelopment strategy to backstop progressively freer trade with the world, ultimately a definitive free-trade strategy per se. The free-trade arrangement with Israel provides an opportunity, indeed invites ways to set an example, for forging the domestic strategy whose time has come. This policy should be fully consistent with the highest practical principles of free enterprise, limiting government's role to fostering the most productive climate for growth of a resilient private-enterprise system able to adjust to the scheduled removal of all import restrictions—and ensuring workers of the government's readiness to help them make a successful adjustment to possible dislocation attributable in substantial measure to the removal of import restrictions.

Absence of the kind of domestic U.S. policy I have suggested may be a major reason the free-trade agreement with Israel is not the prescription for even bilateral free trade it ought to be. If the United States were prepared to ensure fullest implementation of a free-trade commitment covering all imports from Israel, it would be better prepared to press Israel to ensure fullest implementation of the commitments the Israeli government has made in this innovative agreement.

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